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Legislative Assembly of Ontario

First Session, 36th Parliament

Assemblée législative de l'Ontario

Première session, 36^e législature

Official Report of Debates (Hansard)

Thursday 16 November 1995

Journal des débats (Hansard)

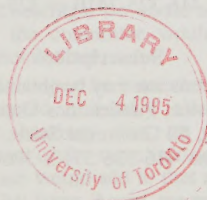
Jeudi 16 novembre 1995

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Organization

Organisation



Chair: Ted Chudleigh
Clerk: Franco Carrozza

Président : Ted Chudleigh
Greffier : Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRSCOMITÉ PERMANENT DES FINANCES
ET DES AFFAIRES ÉCONOMIQUES

Thursday 16 November 1995

Jeudi 16 novembre 1995

The committee met at 1007 in room 151.

ELECTION OF CHAIR

Clerk of the Committee (Mr Franco Carrozza):

Good morning. My name is Franco Carrozza. I am the clerk of the standing committee on finance and economic affairs. I will be conducting the election of the Chair. I would now open the floor for nominations.

Mr Gerry Phillips (Scarborough-Agincourt): I move Ted Chudleigh.

Clerk of the Committee: Any further nominations? There being no other nomination, I call upon Mr Chudleigh to take the chair as Chairman.

ELECTION OF VICE-CHAIR

The Chair (Mr Ted Chudleigh): I thank my nominator. The next issue of business is the election of a Vice-Chair. Is there a nomination?

Mr Douglas B. Ford (Etobicoke-Humber): Yes, Tim Hudak.

The Chair: There being no further nominations, I declare the nominations closed and Mr Hudak elected as Vice-Chair. Congratulations.

ELECTION OF SUBCOMMITTEE

The Chair: The next issue of business would be the establishment of the subcommittee on committee business. Are there nominations?

Mr Phillips: I move that a subcommittee on committee business be appointed to meet from time to time at the call of the Chair, or at the request of any member thereof, to consider and report to the committee on the business of the committee; that the presence of all members of the subcommittee is necessary to constitute a meeting; and that the subcommittee be composed of the following members: Mr Arnott, Ms Lankin and Mr Phillips, and Mr Chudleigh—I guess it starts with Mr Chudleigh and then the other ones—and that any member may designate a substitute member on the subcommittee who is of the same recognized party.

The Chair: All those in favour of the motion? Carried.

BRIEFING

The Chair: The next issue of business might be a briefing by the clerk of the committee on the role of the committee, its staff and also a summary of last year's business so we have an idea of the kinds of issues that will come before the committee.

Clerk of the Committee: I prepared for you and sent to you a briefing report dealing mainly with what the committee did last year, and I've provided for you an update of bills and issues they dealt with.

Basically, the committee works in three areas: legislation from the House; the pre-budget consultation review, and then under its own mandate, which is standing order 106(f), the committee has been able to review certain issues that the committee felt should be of use to the Legislature. Some of these I've written for you. The most popular one was the review of the underground economy. It has done a number of bills, which I have also listed for you.

To bring to your attention, we have a research officer. Her name is Alison Drummond. I will leave her to explain her duties towards the committee.

Ms Alison Drummond: As a rule, one of the major tasks the committee does and would probably do fairly soon is the pre-budget hearings. Ordinarily, what the research service does as part of that process is that if there is a particular issue the committee wants to hear witnesses on but doesn't know, can't name particular witnesses, occasionally we'll do research on, for example, companies in the biotechnology industry that the committee might want to hear from, things like that.

As the hearings are going on, we do a summary of recommendations that have been made by various witnesses that is distributed to members of the committee. We would distribute clippings. If there's coverage of the committee's hearings we would distribute those to members every morning.

If issues arise over the course of hearings, things that are being done in other provinces, similar kinds of things, members can ask through the Chair for information that we would collect. Either I would collect it or somebody else in our office would. That would be distributed to members.

In pre-budget hearings, we would also ordinarily draft a report which the committee would then debate and develop recommendations.

When there is a specific issue the committee is considering, we would ordinarily also provide briefing material before hearings start, so that everybody is starting from some of the same information on that issue and then witnesses would add to that and suggest recommendations on that issue. Again, we would do a summary of hearings if the committee requested that. We would research particular issues that came up over the course of hearings as we always do and would draft a report.

Ordinarily, when the committee considers individuals bills, they don't do a report. They simply do clause-by-clause consideration and then report the bill out. What we do in that case is that when we're summarizing what the

committee has heard, we would attach recommendations to the specific clause. Witnesses don't always do that. They'll say, "We like this; we don't like that," but they won't say what clause particularly they're referring to, so we would put things together in a format that's more useful for the committee's clause-by-clause consideration.

That pretty much sums it up, although we're at the disposal of the Chair, of the subcommittee and of the committee, so if there's other work people would like done, we would do that. That's about it.

The Chair: Are there any questions?

Mr Phillips: The two things that are of interest to our caucus over the next little while will be the fiscal statement coming up next week or the following week, and then the pre-budget hearings. Those are the two things, and what you may want to do, Mr Chair, is just discuss it a little bit here and then the subcommittee meet some time in the next few days and you may want to discuss it with the Minister of Finance too, just in terms of any input from them in terms of timing.

I'd like to throw out for a little bit of discussion here that the first thing we think may be useful is to refer the fiscal statement to the committee. We probably will have maybe two or three days before the House adjourns to discuss it. If it comes out next week, we would have three days. If it comes out the following week, we would have two days and then maybe three days or four days in January to discuss it because I think it would be a good chance for the committee, and by the way, the House, I think, will have relatively little time to debate it.

Then the pre-budget hearings: I think all parties have found it useful in the past and I think our party would like to consider perhaps two weeks of pre-budget hearings, maybe two weeks plus a day. Normally what happens is that we do it in January, February or March. Frankly, I think a little bit later rather than earlier is better just because if the federal budget is out, there's more information available. The later you leave it, though, the less opportunity we have to input into our budget so we may want to get some advice from the minister of when he would like our report.

Those are the two things the committee should consider dealing with right away: the fiscal statement with the committee taking our December time up to discuss it, then perhaps three days in the intersession to discuss it in some detail, and then two weeks of pre-budget hearings some time in January, February or March.

Ms Frances Lankin (Beaches-Woodbine): Mr Phillips and I have discussed this, and our caucus is supportive of that approach as well.

I would add that I don't know what the tradition is with respect to the pre-budget consultations, but it would be a preference if we could see the committee travel for those pre-budget consultations. But I would leave that to the general discussion and then to a more specific recommendation at the subcommittee level.

Mr Ted Arnott (Wellington): I thank the members opposite for their contribution. I think this is business that the subcommittee should discuss perhaps early next week, if that's possible, as per Mr Phillips's suggestion.

I'd just like to ask the research officer, in past years when do the pre-budget consultations usually start? What month? How many weeks are they normally, just in past years? Is there any pattern at all and has the committee in the past travelled to various other communities to receive public input in advance of the budget?

Clerk of the Committee: I can answer that question for you, Mr Arnott. The committee's pre-budget consultation begins pretty well now with the work of the subcommittee to discuss all the issues they wish to discuss and the invitations to expert witnesses. They also have discussed travelling in the past. To my recollection, I don't believe it has travelled, but that doesn't really mean anything.

Mr Arnott: Is there normally then a week or two weeks of—

Clerk of the Committee: Yes, there is. As Mr Phillips has suggested, we usually request two weeks in January or early March for the committee to review because this will give us time to prepare and also for the expert witnesses to prepare their estimates or discussion with us. So right now or early next week, as Mr Phillips says, the subcommittee should meet to discuss all of these issues.

The Chair: If I might suggest, immediately following this meeting perhaps we could meet as a subcommittee and make some arrangements for a meeting next week.

Is there any other business to come before the meeting? I would introduce Maureen Murphy, who is our Hansard representative, and also our audio console operator, Teresa Lohan; she won't be with us every time.

If there's no other business to bring before the meeting, we're adjourned.

The committee adjourned at 1019.

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- *Arnott, Ted (Wellington PC)
- *Brown, Jim (Scarborough West/-Ouest PC)
- *Castrilli, Annamarie (Downsview L)
- *Ford, Douglas B. (Etobicoke-Humber PC)
- *Kwinter, Monte (Wilson Heights L)
- *Lankin, Frances (Beaches-Woodbine ND)
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- *Phillips, Gerry (Scarborough-Agincourt L)
- *Sampson, Rob (Mississauga West/-Ouest PC)
- *Silipo, Tony (Dovercourt ND)
- *Spina, Joseph (Brampton North/-Nord PC)
- *Wettlaufer, Wayne (Kitchener PC)

**In attendance / présents*

Clerk / Greffière: Carrozza, Franco

Staff / Personnel: Drummond, Alison, research officer, Legislative Research Service

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finance and economic affairs**

**Comité permanent des finances
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Chair: Ted Chudleigh
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRS

Thursday 14 December 1995

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES
ET DES AFFAIRES ÉCONOMIQUES

Jeudi 14 décembre 1995

The committee met at 1015 in room 151.

SUBCOMMITTEE REPORT

The Chair (Mr Ted Chudleigh): Could we call the meeting to order, please. The only item on the agenda is the review of the subcommittee report. Would someone move it?

Mr Gerry Phillips (Scarborough-Agincourt): Move the subcommittee report?

The Chair: Yes.

Mr Ted Arnott (Wellington): Mr Chairman, in view of the fact that, as I understand it, the House is going to sit on January 29 and we're going to lose a day therefore, would it be prudent to have the committee sit the following Friday so we are able to have a full four-day week of pre-budget consultations?

Mr Phillips: That's certainly fine with us.

One change on the subcommittee report that Mr Silipo just pointed out to me is on page 1, (f). It should be, "That written submissions be permitted" or "be accepted" or something like that. The second line from the bottom.

The Chair: "Accepted," not "excepted." Okay.

Mr Phillips: Apart from that, Mr Chair, and with Mr Arnott's recommendation, I think we're in agreement.

The Chair: Should item 8 on the third page be amended as well, since today is the 14th? We could remove it entirely and save a page of paper.

Mr Arnott: Did Gerry move its adoption?

Mr Phillips: Yes.

The Chair: Gerry moved it. All those in favour? Carried.

Do the Liberals and the NDP have lists of proposed witnesses?

Mr Tony Silipo (Dovercourt): Yes, we do.

The Chair: Can you deposit those with the clerk.

Mr Phillips: I'm just working on it.

Mr Silipo: Mr Chair, my understanding is that the subcommittee will take a look at the submitted lists and come up with a final list. Is that the process?

The Chair: That's my understanding, that the subcommittee will have to look at the lists.

Clerk of the Committee (Mr Franco Carrozza): You have given the authority to the Chair to combine the lists and to make sure there is no duplication.

Mr Silipo: I guess the assumption is that we try to schedule all the groups and individuals we've suggested from the three caucuses, right?

Clerk of the Committee: That's correct. All the groups will receive a letter from our office informing them of the dates and asking them to call us if they are interested in making a presentation. After we receive all their calls, we'll prepare a list for the subcommittee's review.

The Chair: Then the scheduling will take place by the Chair, with the advice of the subcommittee.

Mr Phillips: You can have my list, if you can read it.

The Chair: Are there any other items of business to come before the committee? There being none, the committee would stand adjourned.

Mr Phillips: Until when, Mr Chair?

The Chair: Until the call of the Chair.

Mr Phillips: I think it's assumed that we would meet first on January 30. I think that would be the next time we're together.

The Chair: I would think so.

Mr Douglas B. Ford (Etobicoke-Humber): You're going to send us a note on that?

Clerk of the Committee: Oh, yes. You will have an agenda and a notice and everything.

The Chair: There may be a subcommittee between now and then but not a meeting of the committee, as I would see it.

Mr Joseph Spina (Brampton North): Mr Chair, just to clarify, the subcommittee will look at all three lists and come up with a composite list, is that correct?

The Chair: In actual fact, I believe the clerk will do that and will come up with an actual list, and invitations will be issued.

Mr Spina: Then, based on the responses by the 30th or the next meeting—

The Chair: We will then schedule those people to come, the subcommittee, and the resultant list from that would be distributed to the committee, and that will make up the agenda.

Mr Spina: Then, as the subcommittee listed in this item, there would be two weeks for a report summarizing?

The Chair: Yes. Following the hearings, there would be two weeks for the staff to prepare a report.

Mr Spina: Just asking rookie questions, Mr Chairman. Thank you.

The Chair: Any other issues? We stand adjourned.

The committee adjourned at 1021.

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**Comité permanent des finances
et des affaires économiques**

Pre-budget consultation

Consultations prébudgétaires



Chair: Ted Chudleigh
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Monday 5 February 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO
**COMITÉ PERMANENT DES FINANCES
 ET DES AFFAIRES ÉCONOMIQUES**

Lundi 5 février 1996

The committee met at 1106 in committee room 1.

PRE-BUDGET CONSULTATION

MINISTER OF FINANCE

The Chair (Mr Ted Chudleigh): Welcome, Minister. We look forward to your comments this morning. Would you please proceed.

Hon Ernie L. Eves (Deputy Premier, Minister of Finance and Government House Leader): I thought it might be useful if we started out by a bit of a slide presentation to outline to committee members and to the public exactly where we see ourselves being at, at this particular point in time, in the Ministry of Finance. I look forward to input this committee will receive from various Ontarians from all across the province and from different sectors and walks of life, and to receiving the comments of opposition as well as government members as we continue through the deliberations leading up to the budget this spring.

I'd like to take a few minutes first of all to put into context what we're trying to achieve as a government. For too many years, we believe, government has ignored the fundamental issue: What role should government play in the lives and businesses of Ontarians?

In the past 10 years government has increasingly believed that the answer must be more: more programs, with more taxes, more rules and regulations, more forms to fill out. The Harris government opposes this view and was elected because most hardworking, taxpaying Ontarians agree with us.

Mr Gerry Phillips (Scarborough-Agincourt): I don't mean to interrupt, but in terms of timing, I gather we have about an hour with you.

Hon Mr Eves: My understanding is that there's approximately an hour. This presentation will take approximately 30 minutes, and I understand there'll be 30 minutes of Q and A.

Mr Phillips: I appreciate that. Thank you.

Hon Mr Eves: The Harris government opposes this view, as I said, and we believe that most hardworking, taxpaying Ontarians agree. We believe our job in government is to make Ontario a province of opportunity once again. This means fostering long-term economic growth to create jobs; freeing the economy of red tape and overtaxation and rewarding hard work and initiative; balancing the budget and focusing on services people value most—health care, education, safe communities; and changing how the public sector works so it can deliver quality services efficiently and cost-effectively.

Let me take a couple of minutes to speak of some of

the actions we have already taken as we move forward towards our objective.

We have moved quickly and decisively to get Ontario back on track and to set the stage for growth and job creation. We have repealed Bill 40 and introduced Bill 7. We have repealed job quota legislation. We have put a moratorium on non-profit housing. We have dissolved the Interim Waste Authority. We have frozen WCB assessments. We have established a one-year Red-Tape Review Commission.

We acted immediately to get spending under control, cutting \$4.5 billion to \$5.5 billion out of the 1996-97 spending. We set targets to balance the budget by the fiscal year 2000-01. We appointed the Ontario Financial Review Commission. We ended the practice of keeping two sets of books. The actions taken in July and November cut between \$4 billion and \$5.5 billion, as I said, and the recommendations made by the Ontario Financial Review Commission will be pursued by this government.

We have reinvested funds in our health care system. We have restored out-of-country OHIP coverage to \$400 a day. We have invested \$15.5 million for paramedic training. We have expanded eligibility for the Trillium drug plan to add an additional 140,000 low-income, hardworking Ontarians. We have expanded the measles vaccination program. We have increased funding for cardiac surgery. We have announced satellite facilities for urgently needed dialysis services. We are providing extra pay to physicians in rural and northern communities working nights, weekends and holidays in appropriate emergency departments.

We are taking steps to improve our education system. In particular, we want to focus resources on classroom education so that students will have the skills they need to get good jobs. We have announced plans for a more focused five-year high school program, comprehensive student testing and the creation of a College of Teachers for the province of Ontario. As I have said before, our focus will be on classroom education.

We have ended 33 business handout programs, saving \$230 million to the province.

We have cut social assistance rates to bring them more in line with what other provinces provide, yet on average our rates are still 10% higher than the average of the other nine provinces. Experience shows that the caseload is down dramatically between June and December; 114,000 fewer people are dependent on social assistance.

We have acted to bring down the cost of running government. Administration costs of the government itself will be cut by 33% over two years. We have improved our financial reporting, adopting the PSAAB system, and made the government more accountable to taxpayers. We

have introduced legislation that requires salary disclosure of those earning more than \$100,000 a year in the public sector. We have set a target of reducing funding for agencies, boards and commissions by \$220 million, a cut of 28%, by the end of the year 1997-98.

Let me turn to the fiscal challenge we face, to give you not only the context of our actions but the plan for where we are headed. Ontario's fiscal situation has deteriorated significantly over the past decade. In the past 10 years, government spending has virtually doubled, from \$28 billion in the fiscal year 1985-86 to \$57 billion in the fiscal year 1995-96. Ontario's accumulated debt has almost tripled, from \$33 billion in 1985-86 to over \$97 billion in the fiscal year 1995-96.

And what do Ontarians have to show for it? Fewer jobs than in 1989, higher unemployment, and about two and a half times as many people on social assistance as 10 years ago, costing the taxpayers four and a half times as much as then.

It is clear that overspending, high taxation and deficit financing do not create lasting jobs. If they did, everyone in the province would have two jobs by now. Since 1990, the Ontario government has been spending far beyond its means and incurring very large annual deficits. The Ontario government is spending \$1 million an hour more than it takes in in revenue, every hour of every day, 365 days of the year.

Ontario's annual deficits of about \$10 billion a year on average over the first half of the 1990s have pushed Ontario's outstanding debt sky high. In 1995-96, Ontario's debt will exceed \$97 billion, more than twice the level in the fiscal year 1990-91.

Clearly, the trend in debt buildup of the early 1990s could not be sustained. While we have taken some important steps to put Ontario's finances on solid footing, we are not out of the woods yet. Even when we achieve a balanced budget, it will be some time before we approach the debt-to-GDP ratios of the 1980s. Debt-to-GDP in 1989-90 stood at 14%. Today, it is over 30%. Even with our actions, our debt in the year 2000-01 will exceed \$120 billion.

Ontario's 1995-96 deficit is forecast at \$9.3 billion, or \$839 per person, the highest among the provinces. Seven provinces are forecasting surpluses for this fiscal year. The fiscal situation in other provinces has improved partly as a result of strong resource-related growth in the case of BC, Saskatchewan and Alberta, and the continued growth in equalization payments from the federal government to recipient provinces. Ontario relies more heavily on taxes, such as personal and corporate income taxes and retail sales taxes, the revenues from which have not grown as quickly in the past several years.

Ontario's interest costs in 1995-96 are 18.8% of revenue, the second-highest among all provinces after Nova Scotia at 19.3%. Ontario's debt stands at \$97.2 billion, or \$8,765 per person, third-highest among the provinces. Ontario's debt and debt servicing costs will continue to increase until the deficit is eliminated. Debt and interest costs in many other provinces can be expected to fall.

While Ontario had the third-lowest per capita provincial spending in 1993-94, consolidated provincial-local

spending in Ontario for 1993-94 was \$6,753, the second-highest of all provinces, exceeded only by Alberta.

Per capita provincial spending comparisons can be misleading, because provinces differ greatly in size and the mix of responsibilities between provincial and local levels of government. Consolidated provincial-local spending is a more meaningful basis for interprovincial comparison. Recent newspaper articles only compared the level of provincial government spending. Ontario has a relatively large local municipal sector which is responsible for services provided directly by provincial governments in some other provinces. Combined provincial-local program spending in Ontario was higher than average per person for all provinces in 1993-94 and in each of the three preceding years prior to 1993-94.

Between 1985 and 1992 per capita provincial program spending in Ontario has increased at an average annual rate of 5.4%, higher than any other province and much higher than the provincial average of 2.7%.

As the debt continues to pile up, interest costs to support the debt load climb along with it. Each year, more and more of the province's resources must go to pay interest costs. Just five years ago, public debt interest represented slightly more than 8% of total spending. Today, PDI represents almost 16% of total spending and it continues to grow. It has almost doubled in the last five years alone. That leaves less and less of the province's resources available for programs and services.

An example: In 1996-97, public debt interest will grow by slightly more than \$500 million. That is more money than it takes to run the entire provincial police force in the province of Ontario.

When we took office, we learned that we were facing a deficit of \$11.2 billion. We acted immediately. On July 21, 1995, I announced \$1.9 billion in spending cuts to reduce the 1995-96 deficit outlook to \$9.3 billion. The province remains on track to meet the \$9.3-billion deficit outlook indicated in November.

The third-quarter Ontario Finances just released shows Ontario has received a \$367-million fiscal stabilization payment from the federal government. Our \$9.3-billion deficit target also includes a provision for pending one-time charges of \$450 million for things such as the Ontario student assistance program and Ontario Development Corp loan loss provisions and the write-off of non-profit housing cancellation costs. Once quantified later this year, these charges will be included in the 1995-96 plan and reported in the spring 1996 budget.

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A realistic plan to reduce the deficit and balance the budget is essential to slow the growth in public debt interest costs that threaten to swallow up more and more of the province's budget. A realistic plan is also an important element in creating jobs and restoring Ontario's reputation as a good place to invest and do business.

The province outlined a balanced budget plan in November consistent with the Common Sense Revolution document. It sets out declining annual deficit targets, culminating in a balanced budget by the fiscal year 2000-01. These deficit targets are based on accounting practices recommended by the independent Public Sector Accounting and Auditing Board, realistic and prudent forecasting

and an annual contingency reserve to accommodate unforeseen events. I would point out that while we have set deficit targets, decisions on revenues and expenditures have not yet been made. Details on the 1996-97 fiscal plan will be released with our first budget in the spring.

The government has already taken important steps to achieve its balanced budget objective. The November fiscal statement, along with the spending cuts announced in July, will cut spending in 1996-97 by \$4.5 billion to \$5.5 billion.

In 1995-96 total spending will exceed \$56 billion. Two thirds of all government expenditures support social programs: Health, Social Services, Education and Training. That is why, if Ontario is to get its fiscal house in order, all public institutions in the province must restructure their operations to find more efficient ways of delivering services. Of note: Public debt interest is the single largest expenditure program, having nearly doubled in the last five years to almost 16% of government spending, as we've indicated previously.

Over the 40-year period to 1995 Ontario real GDP grew at an annual rate of 4.5%. During the 1990s Ontario's real growth rate has averaged only 0.7%. The rapid growth of government spending pushed up the level of public debt and made the economy extremely vulnerable to high interest rates. The increased intrusion of government in rising taxes left the private sector ill-equipped to deal with strong international competition.

There is light at the end of the tunnel, but it will take some time to work off the hangover of high debt. Sound economic policies will strengthen the economy over the medium term. The government is restoring confidence to the economy and removing barriers and administrative burden so that business can invest and create jobs.

Cutting taxes is the best way to create good jobs. Details of personal income tax cuts will be announced in Ontario's 1996 budget. We will eliminate the first \$400,000 of payroll from the employer health tax. Workfare and learnfare will provide individuals with training and self-esteem, enabling them to gain meaningful employment. This will lead to more jobs, higher levels of income and lower unemployment.

In 1995 the average level of employment in Ontario rose by 71,000. The private sector created 116,000 net new jobs, while public sector employment declined by 45,000. By eliminating unnecessary regulation, restoring balance in labour markets and cutting the tax burden we can strengthen the ability of the private sector to create jobs.

We believe that the economy can do better with the right mix of fiscal constraint and reduced taxation. Cutting the personal income tax will boost consumer confidence and investment. Current personal income tax rates are out of line. The tax-and-spend approach did not work.

You, as members of the committee, and others who come before you should understand the government is firmly committed to the mandate the people of Ontario gave it last June. We are committed to restoring hope and opportunity; a business environment that fosters job creation, investment and economic growth; protection of priority services: health care, education and law enforce-

ment; smaller and more efficient government; meeting our deficit targets and balancing the budget by March 31, 2001.

I believe this committee has a role to play in advising the government on the 1996 Ontario budget. Individuals will be coming forward to provide this committee with advice and suggestions. I'd like to hear in particular their views on steps we could take to bolster business and consumer confidence, on ways the public sector could do its job of delivering services more efficiently and on what steps this government could take to make that happen.

The Chair: Thank you very much, Mr Minister.

Mrs Margaret Marland (Mississauga South): Mr Chairman, the clerk has just informed me that there is a decision by the subcommittee that the 30 minutes will be taken up by the two opposition critics.

The Chair: That's correct.

Mrs Marland: I need to know, if this is the first meeting of this committee, that subcommittee report hasn't been adopted yet, has it?

The Chair: I believe on your agenda it is scheduled for 4 pm this afternoon.

Mrs Marland: No, that's on auto insurance.

The Chair: I'm sorry.

Mrs Marland: The point of my question, Mr Chair, is I don't recall a three-party committee where the government members were not permitted to ask their own minister questions. I realize you're talking about half an hour once we get started, but I think the government members should not be excluded from asking the minister questions.

If the subcommittee report hasn't been adopted yet, I think that needs to be dealt with. I'm suggesting that the government members do have an opportunity to ask questions. If you want to deal with it through the subcommittee report, fine. I guess I've got you with the clerk out of the room, but I'm suggesting that there are eight government members here and I, for one, would like to ask the minister a question.

Mr Phillips: We certainly would have no trouble extending that and having the government members for 15 minutes as well. I think that's only reasonable.

Ms Frances Lankin (Beaches-Woodbine): We agree with that position. I think if we expand the time to 45 minutes, split it three ways, that would be fair.

Mr Monte Kwinter (Wilson Heights): Mr Chair, on a point of information to the minister: I just wanted to confirm that it was just a slip of the tongue and not a change in his position when he said that he was going to have a more focused five-year high-school program, notwithstanding the slide says four.

Hon Mr Eves: I meant four. If I said five, I apologize.

Mr Kwinter: I just wanted to make sure that hadn't changed.

The Chair: Being agreed then that we will have 15 minutes of questioning from each of the parties, we will begin with the official opposition.

Mr Phillips: We all appreciate your being here. The thing that strikes me in the presentation is there's virtually nothing in it about why we're here, and that is kind of looking ahead at 1996-97 and the next three years on the fiscal side. Will the staff be providing us with the fiscal and economic outlook for the future this afternoon?

Hon Mr Eves: Staff will be available, as you know, this afternoon and at other times throughout your deliberations. However, as I've indicated in response to a letter that you've sent me, and several times verbally, we have not decided totally. We could announce the 1996 budget today if we'd made all the decisions with respect to expenditures and revenues.

Expenditures, as you know, are part of the estimate process, which will go on. Revenue, of course, we have to go through normal procedure that the Ministry of Finance goes through every year; this is not unusual. If we had all our revenue and estimate forecasts and projections and had made all the decisions at this point in time, I guess today, February 5, 1996, could be budget day instead of it being in late April or early May. All those decisions—

Mr Phillips: With all due respect, I don't want to spend a lot of time on this, but I've been sitting on this committee for some time and every time the Finance minister comes in and says, "Here's what we think is going to be the economic outlook. Here's what we think, if nothing changes, will be the revenue outlook. Here, if nothing changes, is the expenditure outlook. Here is the future," and we've got virtually no numbers.

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I guess I'll pursue it on the basis that the one document we have is the Common Sense Revolution. That's the one where there is some economic and fiscal outlook. Is the economic outlook, as you see it, still about in line with what you thought at the time that this was presented, which was about six or eight months ago, or is it better or is it worse?

Hon Mr Eves: If you look at the projections that were made with respect to our November statement, you will see what we expect numbers like real GDP growth and inflation and job growth to be. I think everybody in the financial community was probably a little bit too optimistic with respect to the numbers they put out in early 1995. I think that in regard to the statement that the provincial government made in July of this year and again in November, if anything we are, pardon the pun, perhaps criticized in some circles for being too small-c conservative with respect to our projections. I think you're going to have to wait, though, until we do produce our 1996 budget to look at our interim projections with respect to revenues and expenditures.

Mr Phillips: Then I assume the economy's performing about as you thought. The revenue impact in the Common Sense Revolution indicated that in the first year, 1996-97, the first budget year, the one we're dealing with, the revenue impact of the tax cuts was \$2.2 billion. The following year it's \$3.4 billion, \$4.7 billion, \$4.8 billion, going to \$5 billion. Those are the numbers you've used, and incidentally, in your projections here, you've used the numbers from here for your deficit projections.

Is it fair to assume that the lost revenue as a result of implementing your tax cut and your employer health tax cut offset by the health care levy would be, when all is said and done, still in the numbers that you gave us during the campaign, around \$4.5 billion to \$5 billion? Is that roughly the annual lost revenue?

Hon Mr Eves: No, I don't think it's fair to assume that because, as I have indicated to you before, we have not calculated our tax design. If we had, there again we'd be announcing a budget today, February 5. There are several ways that a tax cut can be implemented. There are different dates that a tax cut can be implemented. As you know, by the federal-provincial agreement there are only two dates available to us: July 1 or January 1 in any particular year. There are several options or avenues open to the government. When we're in a position to more accurately determine not only our expenditure level but our revenue level, we'll be able to make some of those decisions and the tax cut will be part of that deliberation.

Mr Phillips: I assume one of the very first things any minister would have done would be to say to the staff: "We promised to reduce the personal income tax from 58% to 38%. Will you update our cost estimate?" I assume—you've been minister now for seven months—that would be almost the first thing you would do, just so you know the number. What was the number when you asked the staff to give you an estimate, fully amortized? I realize there may be a timing problem here when you want to implement it. But when it's fully amortized, what did the staff tell you a cut from 58% to 38% would represent in lost annual revenue?

Hon Mr Eves: I haven't asked the staff to give me that. There are several assumptions with respect to what form or amount any tax reduction would take. I think the most popular one is a 30% tax reduction. There are also some who say, as you've just said, the tax reduction should be from 58% to 38%. There are also some who say the commitment is for a \$4-billion tax cut. So there are several opinions out there as to what the tax cut should, could or would be, but quite frankly, as I've said, those decisions have not been made yet. I don't think it would be prudent or appropriate for me or any Minister of Finance to make those decisions without knowing what our expenditure levels could reasonably be expected to be, without knowing what our revenue could reasonably be expected to be, without knowing how the economy could reasonably be expected to perform.

Mr Phillips: I understand all that. I'm just saying—

Hon Mr Eves: I think it would be inappropriate for me to make that decision ahead of time.

Mr Phillips: No, you may have misinterpreted me. The election was held. It wasn't me that said it. You ran on a platform of reducing the personal income tax from 58% to 38%. It wasn't up in the air. It was spelled out in type, in print; it told people. I'm just asking the question, and I want to be very clear on this: Are you saying you have not had the staff give you an estimate of the cost of the promise to reduce personal income tax from 58% to 38%, that you have not seen any numbers over the last seven months from any staff on the fully amortized cost of implementing that promise?

Hon Mr Eves: I have asked the staff to explore several options. I'm not about to share them with you at this point in time. I'm about to share them when we announce our final decision in the 1996 budget. You say our commitment is from 58% to 38%. There is also a commitment that you have said, and others, that it's 30%. There's also a commitment of \$4 billion.

Mr Phillips: Well, what was the commitment then?

Hon Mr Eves: All those things—

Mr Phillips: You tell me the commitment. I'm trying to figure it out.

Hon Mr Eves: The commitment was, in my opinion, that there will be, on average, a 30% tax cut to Ontarians over a five-year period of time.

Mr Phillips: My question is very simple: What is the annual cost of that? That's all I'm asking for, as we're trying to be helpful here. When you had that costed—

Hon Mr Eves: Depending on how you design and the time lines it takes effect, there can be different costs in different years, and when we've made a final decision it will be costed and explained.

Mr Phillips: Let's assume you haven't made the final decision, but you said you're going to reduce the average taxpayer's personal income tax by 30%. Please be helpful here. When that's fully implemented, what is the annual lost revenue for the province?

Hon Mr Eves: Depending on how you do it, it can work out to different numbers.

Mr Phillips: Give us a hint.

Hon Mr Eves: I'm not about to share the different options with you until we've made a final decision. I don't think that would be appropriate.

Mr Phillips: But here's your biggest single commitment. You're asking us to be helpful. All we're asking is surely, and I'll ask it again, have you not had the staff give you that estimate?

Hon Mr Eves: As I said to you a few moments ago, I have asked for several options that the staff can work up. They all have different numbers. It would be very—

Mr Phillips: Will you give us those options?

Hon Mr Eves: —inappropriate for me to share with you every suggestion that staff and I have discussed in the last seven or eight months. If that was the case, there wouldn't be any point in having a budget ever.

Mr Phillips: But the public, I think, are owed a little bit of information.

Mr Tony Silipo (Dovercourt): What is the point of this exercise?

Hon Mr Eves: Excuse me, Mr Silipo, did Mr Laughren share every option with everybody in the province of Ontario?

Mr Phillips: Don't give answers on my time here.

Ms Lankin: A lot more information than what—

Interjections.

The Chair: Order.

Hon Mr Eves: I doubt it, Ms Lankin.

Mr Phillips: Actually, Mr Laughren used to lay out all the options. He said if you reduce gas tax by one cent a litre, it would be this; if you did this, you did that.

Hon Mr Eves: Mr Laughren used to run deficits of \$14 billion a year, too.

Mr Phillips: Well, we're trying to look ahead here.

Hon Mr Eves: Yes, we are.

Mr Phillips: Let's think ahead. Forget the past. I'm just saying that you've given us virtually nothing for the future here. I know you like to look in the rear-view mirror and it's convenient, but surely we need some help from you on what is the cost of your tax cut. It would be too incredible to believe from the public that you didn't

say, "Here is our commitment and here is the cost." Have you not done that?

Hon Mr Eves: There are several ways of designing that tax cut, and when we've made a final decision we will obviously share it with the public.

Mr Phillips: Okay, but you presumably made a promise; we're just saying, what was the cost of your promise? I'm going to have to assume it's the \$5 billion a year. I have no information other than the one you've given us. So I will assume that the \$5 billion a year is what the annual cost of your tax cut is, in the absence of any other piece of information. Is that fair?

Hon Mr Eves: You can assume whatever you like.

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Mr Phillips: I'm a bit disappointed with the minister's response on what we're trying to do here. On the job front, in your document, this document here, it indicates that the number of people out of work in 1996 will be higher than 1995, and then in 1997 will be higher than 1996. If the Common Sense Revolution or whatever it is you've got is such a good plan, why would it be that there will be more people out of work in 1997 than when you came into office?

Hon Mr Eves: The Ontario economy generated, I believe, 47,000 jobs over the last four months of 1995. Everybody understands, I think, that there were problems in the economy, not just in Ontario but in Canada as a whole, in the early part of 1995 and I think all forecasters misread that economic situation a little bit.

We think, as I said, that on an average annualized basis, employment went up 71,000 in the 1995 calendar year. We have chosen an annual averaged amount. We think that is the most appropriate way of calculating job growth, as opposed to a specific date over a specific date. I might note that my predecessors in all three political parties have used exactly the same calculation of average job growth that we are using. Mr Laughren used it; Mr Nixon used it; Mr Grossman used it etc. We think that is the most accurate barometer of job growth.

We believe that 71,000—as we indicated, I believe it was in our July statement, we anticipated it would be 72,000 for this year. We were out a little bit but not by much. We believe that's a realistic way of approaching it.

Mr Phillips: A last question: We understand your officials have talked to the credit rating agencies and given them some unofficial projections of revenue and expenditures, not the final ones because obviously they're not ready, but unofficial ones. Are you prepared to share with the committee those unofficial revenue and expenditure projections that were given, not final, we know that, but unofficial ones? Can we have those, at least, to give us some idea of some numbers?

Hon Mr Eves: I wasn't present obviously—

Mr Phillips: Didn't say you were.

Hon Mr Eves: —at those deliberations or meetings. I wouldn't describe those as projections. Officials may have indeed responded to inquiries from various rating agencies, as indeed has been done in every pre-budget discussion and deliberation.

Mr Phillips: Can we have that information?

Hon Mr Eves: Those deliberations, as you well know, are confidential between the Ministry of Finance and the

credit rating agencies. They are done of course with a view to providing credit rating agencies with some basis upon which to formulate their opinions. However, they are not concrete decisions that have been taken by the Ministry of Finance or Ministry of Finance officials. In many cases, it's my understanding that they are hypothetical questions—

Mr Phillips: Can we have the hypothetical ones then?

Hon Mr Eves:—that are posed by rating agencies and there are hypothetical answers given. But it would not be appropriate, I don't think, for the Ministry of Finance, any more than it has been in the past, to release that information.

The Chair: Thank you very much, Mr Minister. That concludes the official opposition's question period. We move to the third party.

Ms Lankin: Minister, we appreciate your presentation, but you just touched on the point: You said, a number of times actually in response to Mr Phillips, that it wouldn't be appropriate to share that information, that it wouldn't be appropriate to give those kind of details, as it wasn't in the past, and I do have to say to you that your presentation lacks specifics in comparison to past presentations to this committee.

I'm concerned about that because in a number of areas, if you want the public coming forward to present to this committee and this committee to be able to provide advice to you, and as you said in your opening comments you're looking for advice from all three parties as well as the public, it has to be advice as to where we go from here. What you haven't given us is the here.

We've heard a lot of sort of platitudes and a lot of the same things we've heard you say in answer to questions in the House, but for example, we don't have medium-term or long-term revenue projections, based on the status quo—if nothing was done, this is what it looks like. We don't have medium-term and long-term expenditure projections with the expectation of what pressures are in the system built in against the fiscal plan.

Those are the sorts of things that would normally be shared with a committee like this and with the public so that we can examine, if nothing was to happen, where we would end up and the steps that need to be taken, the various options that we can look at, in your words, to correct the situation.

For example, on the tax cut, I would argue there are probably numbers of options you've referred to that you could share with us. Don't you want this committee's and the public's input on the design of the tax cut if you're committed to proceeding with it? Why would it be inappropriate to share a number of different basic assumptions about, if the design was 30%, if it was 58% to 38%, if it was \$4 billion. Why can't you share those options with us and then allow us to provide you with advice? I'm not asking for your final decisions. I'm not asking for your budget document and what the end result will be. But surely you want the kind of input that is going to be informed input, and you've provided us with no basis at this point to give you informed input.

Hon Mr Eves: I think we've outlined exactly what the economic situation in the province is to date rather accurately. We've done it not only on July 21, not only

on November 29, but also in the third-quarter fiscal statement in the province released last Thursday. We're not here to direct the members of the public what to tell us or committee members what to tell us. We're here to hear their input. If the exercise was merely to come here and us tell you what we're going to do, there wouldn't be any point in the exercise. We could wait till budget day.

Ms Lankin: No, Mr Minister, please. Please do not twist my words. I did not for one moment suggest you should tell us simply what you were going to do. What I suggested was you provide us with the kind of information that has been provided to this committee in the past to allow the public coming forward and the members to give you some informed advice.

For example, in previous presentations before this committee we have had projections of expected revenues. What will happen? What's the economic growth projection? What does that mean to revenues to the province? If you were to make changes on a point-by-point basis to personal income tax, what would the cost be to the revenue base, or what would the gain be? The same with retail sales tax, employer health tax.

I have the forms from previous years. You haven't provided us with anything in terms of your medium- and long-term projections on operating expenditures. What kind of pressures are in the system in terms of programs coming on stream and greater utilization projected? Those sorts of things are the kind of basic information, the tools—your government likes to provide people with the tools they need to do their job. Those are the tools and that's the kind of toolbox this committee needs to be able to do its job.

Let me turn to some specific questions and perhaps we can find out if any of this information will be forthcoming. You've said on a number of occasions today that you have not made any decisions with respect to the tax decrease, and I believe you on that, that there are a number of options of how the Common Sense Revolution promise could be interpreted. Would you provide this committee with a range of options of how you could accomplish an average 30% decrease in personal income tax and what the lost revenue projection would be so we can provide you with some feedback on that?

Hon Mr Eves: If Finance officials are able to do that, I certainly have no problem with exploring that dialogue with the committee.

Ms Lankin: I will expect that to be forthcoming because I know Finance officials actually had that kind of thing worked up before your government was elected in June. I saw some of those figures previously, so that shouldn't be a problem.

Could you tell me, with respect to the medium- and long-term economic outlook, have you built in an assumption in your economic growth figures of any increase in economic growth as a result of your proposed tax cut?

Hon Mr Eves: Not in the immediate short term we have not. On the idea of returning money to people who pay taxes and work in Ontario, we hope, obviously, to increase consumer spending; we hope to increase consumer confidence and business confidence. I don't think you can say in the short term that if you do this on

whatever day the budget happens to be—say May 1 for lack of a better date, you're going to see the immediate impact of that in the economy by June 1 or July 1 or necessarily even September 1 of that year. But it would be our belief and hope that it has an effect on the mentality of the consumer out there, and on individuals who are investing both on an individual basis and on a business basis, that they will have some confidence restored, that they understand they will have more money in their pocket, that they can feel confident there is going to be some consistency in the government's attitude over the next four or five years.

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Ms Lankin: Mr Minister, when you said not in the short term or medium term—I just want to get a common definition—by short term are you talking not in the first fiscal year the tax cut takes place? Would you say medium term is not in the second fiscal year?

Hon Mr Eves: I would say short term is for sure the first and probably the second fiscal year.

Ms Lankin: So probably the third year is when we might see it?

Hon Mr Eves: Beyond that I would hope you're going to start to see some impact.

Ms Lankin: So in terms of your medium- to long-term economic growth projections, is there any additional growth stimulated by the tax cut? Is that built in to your assumptions?

Hon Mr Eves: Not at this particular point in time.

Ms Lankin: Okay. Now, in the Common Sense Revolution there was some estimation that there would be a slowing down of the economy, an economic drag factor, as a result of the projected layoff of 13,000 Ontario civil servants and cuts to public sector spending. Could you tell me, have you built in an expectation for economic drag? Is it greater than what you had projected in the Common Sense Revolution, given that we're hearing that the cuts will be deeper and the layoffs will be greater, and do you expect that to take effect in the short term, medium term or long term?

Hon Mr Eves: As you know, we haven't made all the final decisions with respect to how all reductions are going to be implemented and the targets are going to be achieved by various ministries. We did build in to the CSR document, as I understand it, and it's consistent with our belief today, that the economic drag effect of that is about 0.5%. As I said, it's difficult to say exactly what the drag effect will be until you determine, of course, exactly what the job loss is. The job loss isn't a number that is simply out there that you'd like to achieve. It is various savings that various ministries have to achieve, and how they go about achieving that is in a business plan, of course, that they will present to cabinet and will ultimately be adopted. I don't know how anybody could predict at this point in time what those job numbers in fact will end up totalling, will end up being.

Ms Lankin: Okay, could we move off that—

Hon Mr Eves: Sure.

Ms Lankin: —because I understand that explanation, to the dollar number then? Let's look at that. Have officials in Finance provided you with any estimate of, for example, for every billion dollars of public spending,

government spending, that you take out of the economy, what the economic drag factor of that is to GDP?

Hon Mr Eves: I could let the deputy answer that, but I think the answer is that it depends on the specific decision you have taken and where you take the money out, how you take it out.

Ms Lankin: Again, could I suggest then that given that I do know that in the Ministry of Finance there are economic modelling systems that provide that kind of information, perhaps you could provide the committee with a series of options about, if you take the billion dollars out in this way versus that way, what the effect is in terms of economic drag.

Hon Mr Eves: The deputy has indicated that if you'd like to discuss that this afternoon, he'd be more than happy to discuss that.

Ms Lankin: It would be useful to have a presentation on that so that you're getting the best advice with respect to this. What I'm worried about in terms of your answers is that we don't have any numbers to work off of to give you advice. We know that somehow or other your actions with respect to the cuts are going to create an economic drag probably greater than the 0.5% that you projected in the Common Sense Revolution, because your cuts are bigger, but we don't have a projection from you on what that is. That's likely to kick in in the short term. You won't give us a projection in terms of what kind of additional growth we're likely to see to counteract that as a result of your tax cut, but we do know that's likely not to kick in until the long term.

I'm wondering what picture that presents to the public of Ontario in terms of any hope for a return of consumer confidence, the sense of job creation over the short to medium term, what Ontario can expect a year or two years from now if in fact, as you've so far told us, we will see a tremendous economic drag not balanced out by any kind of stimulated economic growth until some time off into the future and you don't know when.

Hon Mr Eves: I didn't say long term; you did. I said in the short term.

Ms Lankin: You said not in the short or medium term. That only leaves long term.

Hon Mr Eves: We discussed short term. I don't think I said short or medium term; I said short term.

Ms Lankin: You can check the record, sir. You did.

Hon Mr Eves: If I did, then I apologize.

Ms Lankin: Okay.

Hon Mr Eves: I think a combination of things is needed. I think there's a combination of reduced expenditure level and the government and various other transfer partners getting their act together, really, and becoming more efficient in how they deliver services, combined with restoring some money in tax dollars, relief—whatever way you want to put it—to the average Ontarian. I think that will have a positive outlook and effect in the average Ontarian's mind, in the average businessperson's mind.

With respect to what information we've provided or not provided, the economic statement of November 29 is about a 20-page document, if my memory serves me correctly, which has information in it. There's a 44-page appendix attached to it that has plenty of information in

it. Perhaps those 64 pages are not sufficient in your mind to provide what you think you need to assist us in our deliberations. I might point out, as of course I've pointed out on several occasions, that neither the July 21 nor November 29 statement was a budget.

Ms Lankin: If I could interrupt you. I've got one minute left and I'd like to ask questions and not have you run the clock out, Mr Minister. I've read your documents and there are a lot of certainly interesting political statements in there. There's not the kind of hard information that this committee is usually presented with. But let me come down to my last question.

In your presentation you said that Ontario's debt and debt servicing costs will in fact continue to increase until the deficit is eliminated, and you've said on a number of occasions that the biggest boost to consumer confidence would be to do away with the deficit and to start to pay down the debt. It is mind-boggling for many of us that you continue to commit yourself to a plan which means that you will have to borrow money to pay for the tax cut and to put off the day of reckoning, let's say, in terms of balancing the budget and starting to pay down the debt and reduce the debt servicing cost. I would like an opportunity for you to explain that, because in all of the information that we've received there is no clear projection of increase in consumer confidence, certainly not in the short term, as a result of the tax cut. There is no clear indication of how this will create jobs; it'll increase savings and investments but not necessarily jobs.

Many of us worry that, while all of us would like to see the tax cut, this is a fault in the plan with respect to achieving what you say is your primary goal of reducing the deficit and starting to pay down the debt and lowering the debt service cost. Could you explain what looks to us to be an apparent contradiction?

Hon Mr Eves: I don't think that there's a contradiction. I don't think there's any doubt that the province of Ontario has become uncompetitive, not only comparing ourselves to other jurisdictions in Canada, but jurisdictions in the United States and elsewhere in the world that we have to compete with. I think that the tax-and-spend policies of not only the last 10 years—I would probably add a few more years to that, quite frankly—has led the province of Ontario to the situation it finds itself in today.

You cannot continually add half a billion dollars to a billion dollars in interest costs alone, addition. You're taking that money out of serious programs. Your government did that consistently for five years.

Ms Lankin: Why borrow to pay for the tax cut?

Hon Mr Eves: Just a minute. You wanted an answer. Would you like to give me the opportunity to respond?

Ms Lankin: I would like an answer.

Hon Mr Eves: You want to use up 14½ of the 15 minutes. I understand—

The Chair: If it's very short, Mr Minister.

Hon Mr Eves: —that's politics. The reality is that when your government assumed office we were spending less than \$3 billion a year in interest costs, and when your government left office we were spending \$9 billion a year in interest costs. The reality is—I quite agree with you—we should have those \$9 billion a year to spend on

health care, education, safer communities, reducing crime in our streets, social assistance, aid for seniors, aid for people who don't have housing, that's where those \$6 billion should be spent, and if we wouldn't have run up massive deficits of \$14.5 billion and \$10 billion a year—we have to return the money to the hard-working Ontarians, believe or not, who go to work every morning, earn money, pay taxes at a ridiculously high rate in the province of Ontario. We have to start returning some of that money to those hard-working Ontarians. That's something your government never did understand and that's why we're in the situation we're in today.

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The Chair: Thank you very much, Mr Minister.

Ms Lankin: On a point of order, Mr Chairman: Although the minister wanted a chance to answer the question, I want to point out he didn't answer it.

The Chair: Thank you. Mrs Marland.

Mrs Marland: Minister, when we look at where we were when we started six months ago, when we look at where we started as the government six months ago and we think about the perspective that in 1985, when this province was 118 years old, we had a total provincial debt of \$25 billion. In 10 years, we all understand now, that debt that took 118 years to reach \$25 billion has now quadrupled to \$98 billion.

I think, Minister, the scariest thing that I have heard in this room this morning is that even with our government's actions, our debt in another four to five years, in the year 2000-2001—it's on slide 11 of your presentation—will still exceed \$120 billion. This means that with the actions that we've taken, as difficult and as tough as those actions have been, our debt is still going to increase 20%. Now, I find that very scary and the reason I find it scary is that you would hope that with the kind of drastic cuts we've been forced to make to stop this death spiral, we might be in better shape than another 20% increase in that accumulated debt in another four to five years.

So I'm afraid that, with that information this morning, I have to come back to dealing with the most major criticism that our government is now facing, which is that we are cutting our expenditures only to fund the personal income tax cut for the people of Ontario. I'd like you to explain again why both are necessary, both these drastic cuts to our expenditures, to our government spending, and the tax cut to the people of Ontario, because in spite of all of this, the fact that we are still going to be at \$120 billion in another—

Mr Kwinter: Closer to \$130 billion.

Mrs Marland: —four or five years, which makes—Mr Kwinter makes that point—it even worse. I find that \$120 billion projection this morning by the year 2000 is very scary.

Hon Mr Eves: One thing you have to appreciate is that I think we've reached the tax wall in Ontario. I think we've reached the point where people start doing business under the table. In fact, I don't think it; I know it. The Provincial Auditor points that out. A recent survey done indicates that some 50% of people indicate that they have either paid money under the table or received money in an improper or illegal fashion, and 72% say they would do it again and would consider doing it. I

think those are pretty scary numbers. And the reality is, the reason why that exists, of course, is you can only tax people so much before they respond in a very human fashion, and that's exactly what they have done.

I think you can reach a point where you tax people to where you get declining revenue as the point of your exercise. And I think that's exactly what has happened in the province of Ontario today. I'm not suggesting that it's fine for people to cheat on their taxes. In fact, the ministry and the government are stepping up efforts with respect to areas of retail sales tax and other areas to become much more efficient and effective in that area. However, I think you also have to understand that you have to release people, the average hard-working Ontarian, from some of that tax burden. I believe that will generate more revenue and still more consumer and business confidence in the province of Ontario than has been the case in recent years.

I find the figures quite amazing myself, Mrs Marland, but I don't see any other—we have critics who say that we're moving too quickly, that we're cutting too much, that we're taking too drastic an action, and yet even with all the actions we've taken, as definitive as they've been, we will still be in the neighbourhood of a \$120-billion accumulated debt, even if we are to achieve our balanced budget target of the year 2000-01. By that point in time we will be spending more and more money every year just to service the interest on that debt.

People who say the debt is not important should stop and think about where we were five years ago in terms of our annual servicing costs, where we were 10 years ago, where we are today, where we would have been if we wouldn't have taken the steps we've taken. If we wouldn't have taken the steps we've taken, by the year 2000 the annual interest servicing costs alone would have approached \$20 billion a year. You take \$20 billion a year out of a \$56-billion budget and you don't have a whole lot left to provide health care, safety in communities, education, which I hear critics and special-interest groups complaining about all the time.

You have to understand, this isn't an exercise of cutting for the sake of cutting. It's an exercise to try and restore some economic prosperity in the province of Ontario so that there will be some hope and opportunity for young people to obtain jobs. I know that's difficult for some political philosophies to believe, but we happen to believe that is the case and we happen to believe that we have to restore some measure of economic competitiveness in the province of Ontario so young people will have an opportunity for education, so there will be a health care system in place for all Ontarians, so that seniors will be treated with the respect and dignity they deserve. I can tell you, you're not going to get it by spending \$20 billion a year to service your interest costs so that my children and my children's children will be paying for our free-spending for the next 10, 20, 30, 40 or 50 years.

Mr Silipo: Maybe you should ask him again, Margaret.

Mr Phillips: I move you get five more minutes to get the answer. What's the answer?

Mrs Marland: Thank you for your answer.

Mr Tim Hudak (Niagara South): Minister, thank you very much for your presentation today. On a personal level, I'm looking forward to serving on this committee to hear what kind of solutions there are to the fiscal crisis Ontario finds itself in. I believe the government stands for fundamental change and I appreciate the direction of your presentation today. I sincerely hope that if groups disagree with your presentation, your ideas, they will offer their own positive solutions for change. But again, what I fear is a repeat of what I saw in the Bill 26 hearings, and that is basically a pitched defence of the status quo.

Ms Lankin: That's incredible. That's an insult.

Mr Silipo: It shows how much you've listened to the Bill 26 hearings.

Mr Hudak: Minister, I have a question for you about the status quo. Given international competitiveness and the lowering of trade barriers, the mobility of labour and technology and such in the Canadian economy today, how well can Ontario businesses compete, especially in terms of job creation, given the status quo?

Hon Mr Eves: I think, given the status quo, the record speaks for itself. The answer is, not very well. All you have to do is look at the numbers as we outlined at the beginning of and throughout the slide presentation and in the November statement. Ontario used to be the engine of the economy for the country of Canada. We have to get back to being part of the solution, not part of the problem. I can tell you that the finance ministers' meeting I went to in December—I'm going to another one later this week. When you sit around that table, there are governments of all political stripes, from all different provinces in Canada, and almost every one of those governments, the only two exceptions being the province of Ontario and the province of Quebec, every other government sitting around that table has faced the economic reality that we are facing up to as a government today. They are months and in some cases years ahead of us and they recognized this fact several years ago. One of the primary reasons why we find ourselves in the situation we find ourselves in today in the province of Ontario is that the previous administration in particular failed to recognize that point, and here we are.

Mr Joseph Spina (Brampton North): Minister, as the parliamentary assistant for small business I've received a lot of concerns from the small business community across the province. I ask the question, once input is received from this committee, both on the taxation structure for businesses and the taxation restructuring for consumers at large, do you feel that the real job creators in this province—that is, the small businesses of this province—can have any confidence in what's coming up and why do you think that there should be some confidence?

Hon Mr Eves: Obviously, small business has not only a future but some cause for optimism in the near future.

We have, of course, eliminated several inefficiencies in the system. We have set up the Red-Tape Review Commission. We are looking into boards, agencies and commissions. We are going to reduce payroll taxes. We are trying to get a handle on small business costs, be they WCB premiums, be they direct taxes in the form of income taxes, be they regulating business community to

death, especially the small business community, where every time you turn around you have to fill out 14 forms to do something.

We're trying to control hydro costs in the province of Ontario, and we're trying to do everything we can to assist the individual and small entrepreneur to be successful, to be competitive, to make them hire people, expand their businesses and go into new ventures. And it's not an easy process. However, I think we have made some very definitive statements and starts in the few short months that we've been in office and we hope to see the benefit of that for all Ontarians in the short and near term.

The Chair: Mr Carr, a one-minute question?

Mr Gary Carr (Oakville South): Yes, very quickly: Margaret talked about going to \$120 billion, and it's probably even over that. We're spending about, give or take, \$9 billion—what will the interest alone be on that \$120 billion, even with all these cuts? What will the amount be? Would \$11 billion be in the range?

Hon Mr Eves: Well, if it continues to rise by approximately half a billion dollars a year over the next four years, if that trend continues, you're looking at about another \$2 billion on top of what we have today.

The Chair: Thank you very much. It being 12:15, I would remind the committee that we will resume at 2 pm. We will sit in recess until then.

The committee recessed from 1212 to 1400.

MINISTRY OF FINANCE

The Chair: We have with us this afternoon the Deputy Minister of Finance, Mr Gourley; Mr Dorey, assistant deputy minister and chief economist; Mr Christie, assistant deputy minister and controller; Mr Trick, assistant deputy minister, office of the budget and taxation; and Mr Salerno, assistant deputy minister, Ontario Financing Authority. I suggest we might go straight to questioning if there is no opening statement.

Mr Michael Gourley: Actually, Chair, if the committee members would find it useful, I'd like to call upon Mr Christie and Mr Dorey, Mr Christie in the first instance to take us through a quick review of the third-quarter Ontario Finances report, which is the third quarter of our fiscal year; and Mr Dorey could provide us with a fairly quick review of the third quarter of the calendar year's economic performance. Both of those documents were released recently and they provide, if you like, the most recent public information on the performance of, on the one hand, our fiscal budget, and on the other hand the economy.

I would like to cover two points raised in the questioning of the minister this morning, one having to do with job creation and another issue that came up in relation to—as soon as I find my notes here, I'll cover that; it was another question that was asked—and we'd be happy to then move on to the committee members' questions. With your permission, I'd ask Mr Christie to—

The Chair: Would you see these as 10- or 15-minute presentations?

Mr Gourley: Yes, of about that order.

Mr Bob Christie: For those who don't have copies of the third-quarter Ontario Finances, we have brought addi-

tional copies. The third-quarter finances were released last week. They show the performance for the fiscal year ending March 31, 1996, through the first nine months; they give in effect the current outlook for this year as of experience in those months.

The highlights essentially are that the deficit remains on track at the \$9.3 billion number noted in the statement of November 29. This figure includes a \$450-million preliminary provision—and it is a preliminary provision—for the write-off of some outstanding one-time charges such as cancellation costs on non-profit housing projects and some Ontario Development Corp activities, as well as loan losses from the Ontario student assistance program. These and other possible areas of provision for loss will be determined in more detail later this fiscal year and the results will be reported in the 1996 budget.

The highlights of the report you have in front of you are, on the revenue side, revenue is up nearly \$400 million—\$382 million, to be precise. The largest portion of that is a \$367-million payment from the federal government under the federal fiscal stabilization program. This is a claim that was lodged several years ago, but no estimate of payment under it was included in the November statement so the entire payment goes to the credit of this year's revenue outlook.

On the expenditure side, there are some relatively modest adjustments to program spending, which are shown on the second page. The largest single item other than public debt interest is with respect to the legal aid plan. There's an additional \$35 million to pay amounts owing under the legal aid plan. There is also a saving of \$100 million in public interest due basically to lower interest rates than had been previously assumed.

Those and some of the other changes noted on page 2 of the report leave our expenses down \$68 million from the November plan, which, together with the provision for write-offs, leaves the deficit at the \$9.3-billion mark. There is a number of tables attached to the report which give more detail. For example, on the revenue table on page 3, you will note that we expect corporations tax to be up \$50 million, while some of our receipts in the fines area and for sales and rentals are down by about \$35 million, so there are some small offsetting changes on the revenue side.

We also have included at page 6 a statement of our capital market activity so far this year. If there are questions on that, I'm sure Mr Salerno would be happy to bring you up to date on those.

That's the update through the third quarter. If there are any questions, I'd be happy to address them now or as we go along.

The Chair: Perhaps we could hold those questions until we get through with the reports.

Mr Gourley: I'd like to turn it over to Steve Dorey, but I simply remind members of the committee that we are talking about a different third quarter in the case of Mr Dorey's report. He is speaking in respect of the third quarter of the calendar year and the economic performance and the update that are provided then. Without any further ado, Steve.

Mr Steve Dorey: We released the Ontario economic accounts about two weeks ago. What they show—you

have the pink copy—is that real GDP in Ontario rose 4.7% in the third calendar quarter; that was after two negative quarters in the first half of the year. So we had a mild recession in the first half of the year and a recovery in the third quarter, with growth at 4.7%. That was led primarily by export growth, with exports up at a 10% annual rate. Consumer spending also improved in the third quarter as a result of more auto sales and somewhat higher after-tax income.

On the second page of this report, you have a picture of the composition of the growth in the third quarter. At the bottom you can see that consumer spending contributed just over \$1 billion—

Ms Lankin: What are you referring to?

Mr Dorey: Sorry. The pink one, the second page. Consumer spending contributed just over \$1 billion in the third quarter. Net exports were up by close to \$4 billion at an annual rate. The two declines: Government spending was down at an \$833 million annual rate and inventory accumulation declined by about \$1.7 billion.

Very briefly, on the next page you can see that consumer spending on goods rose at a healthy 4.6% clip and that was more or less matched by personal income, which was up at a 4.5% rate.

With respect to the business sector, on the next page you can see—this is table 3—residential construction was down again, down at a 2% rate in the third quarter. Machinery and equipment spending continued to grow—7.7% in the third quarter—and corporate profits were up at a 40% annual rate in the third quarter. That's consistent with the increase in corporate tax revenue that we're showing in the third-quarter financial accounts.

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The blue piece simply gives you an industrial breakdown; I won't go through it, but it gives you an industrial breakdown of where the growth was in the third quarter. It was overwhelmingly concentrated in the manufacturing sector, particularly auto parts and electrical and electronic goods. I'll leave that.

That's the third calendar quarter. Since then, in terms of recent developments, it's been a mixed bag. Consumer spending, after declining in October, was flat in November. The crucial Christmas period—we don't have a lot of information yet. We do know that department store sales were up about 2.5% from last year in December. That's not great, but it's a little better than some of the anecdotal information we had.

Exports declined in October, were flat in November. The housing market is showing a little life with resales jumping pretty significantly in January.

Those are the principal recent numbers, with the exception of the job numbers. The job numbers have in fact performed reasonably well over the past four months. We gained 47,000 jobs over the past four months.

I'll turn briefly to give you a bit of an update on what that means for our economic projections. These are the projections included on the November 29 statement. You can see that we were projecting, after 5.5% growth in 1994, 2.1% growth for 1995 and 72,000 jobs. Given what we know about the third quarter, we now think the output growth for 1995 will be a little better than the 2.1% we

had projected in November, and the job growth came in at 71,000 instead of 72,000.

With respect to 1996, we had expected 2.3% output growth and 81,000 jobs, and for 1997, 3.1% real growth and 100,000 jobs.

Ms Lankin: Are these figures you're referring to on a specific page, and can we follow with you? You're rattling them off quickly. And could you go through the numbers you just gave us again, please.

Mr Dorey: Sorry; it's this handout. For 1995, at that point we were projecting 2.1% real growth and 72,000 jobs. The actual number for the year came in at 71,000 jobs, so very close to the November projection.

In terms of output, the 2.1% now looks like it will be a little low. With the 4.7% growth in the third quarter, we think the year will be a little better than the 2.1% we had projected—slightly better, up to 2.5%. It depends on the fourth quarter.

With respect to 1996, we had projected 2.3% growth and 81,000 jobs—I'll come back to our current views on that—and for 1997, 3.1% growth and 100,000 jobs.

Mr Gourley: Those are the numbers portrayed here. As Steve has given you updates, the most recent numbers, they're not on this slide, but certainly with respect to 1995, the actual results we anticipate are very close to what we were projecting in November.

Mr Dorey: When we produced the outlook in November—what you have here is that the blue lines represent private sector forecasts as of November 29. Since then, three forecasters have updated their forecasts, given developments over the past couple of months. CIBC, Scotiabank and Toronto-Dominion Bank have all updated their forecasts.

What you have for 1996 on the left-hand side—the highest forecast at the time we presented the November statement was 3.3% growth for next year, the average was 2.6% and the lowest was 2.1%. With the three new forecasts, the forecasts are now lower. We only have three new forecasts, whereas previously we had a much larger sample, and other people will be updating their forecasts. You can see that in general people have moved down to about where we were in terms of our cautious forecast for 1996. So the average is now 2.3% among those three forecasts.

With respect to 1997, private sector forecasts are also in the process of moving down somewhat. You can see that when we did our 1997 projection in November, the private sector forecasts ranged from a low of 2.1 to a high of 4.4. The current range, again, with a much smaller group of forecasters, is from a low of 2.2 to a high of 2.9 with an average of 2.6, which is somewhat below the 3.1% we had projected in November.

As we move towards the budget we will continue to follow economic developments and follow private sector forecasts and we will rework our forecast to take account of developments as they go forward.

Mr Gourley: Steve, if I could just say that those forecasts were all produced I believe prior to the most recent interest rate adjustments that we've seen, so I fully expect there will be adjustments to those forecasts prior to the actual budget time in our updating of the forecast at that point.

Mr Dorey: One final point, the minister referred to the 71,000 jobs created in 1995 and I just wanted to show you a picture of that to clarify how we do that calculation. It's simply an annual average. You can see in fact that we did have a mild recession in the first half of this year and that did produce significant job loss until about August. Since then jobs have grown by 47,000 over the last four months. After coming out of the recession, job growth resumed and we've then seen it rise from there.

Mr Gourley: That concludes our presentation. I'd be happy to take questions.

The Chair: Did you want to comment on those two questions that were asked this morning?

Mr Gourley: The private sector forecasts and the job growth were the two items that I picked up.

The Chair: We'll go into questions. We will have 15 minutes from each party and then pick up the difference at the end. Is that acceptable?

Mr Phillips: This morning the minister mentioned that there's a certain formula you use to get to estimate the job growth. I think he indicated every government has used the same kind of formula. What is that formula?

Mr Gourley: Actually, the slide that Steve was just referring to was our effort to respond to that question. The formula was, how do you calculate the difference in jobs from one year to the next, and the answer is that Mr Grossman, Mr Nixon and Mr Laughren all used in their budgets the average annual number of jobs over—

Mr Phillips: I'm sorry, a better way to ask the question is, you've estimated job growth for 1996 and 1997; how did you do that?

Mr Gourley: Steve can answer that question, but I believe it's consistent with that methodology.

Mr Dorey: Yes, simply that the job growth we show for 1996 and 1997 will be the difference between the annual average for this year and the annual average for each of the next two years.

Mr Phillips: I understand that, but you have to estimate that the number of jobs will grow by—you've estimated I guess 81,000 and 99,000. How did you estimate the 81,000? Did you take percentage of GDP?

Mr Dorey: When we produce our forecast, we look at a variety of factors: interest rates, incomes, spending and so on in the economy and generate, with the combination of an econometric model and judgement, those are the kinds of estimates we get.

Mr Phillips: How did you estimate the 81,000? Why didn't you say 180,000? As I say, I've been told it's a percentage of the GDP growth.

Mr Dorey: No, no. The 81,000 jobs are 1.4% growth in employment. Basically what we do is look at the amount of income growth we expect in the economy, the amount of spending, and forecast overall growth. It's not directly related to GDP growth.

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Mr Phillips: Maybe it would be helpful, Mr Chair, if we can get how that estimate's done, if I might request that, because we're looking over the next couple of years I think job growth averaging about 90,000 and we should be averaging 145,000. I'm anxious to know how we're going to get the total of the job creation over the next five years. So that would be helpful for me.

Mr Dorey: Perhaps, yes, I can come back to that specific question. The 81,000 jobs next year and the 199,000 jobs the following year are jobs that are consistent with a cautious economic forecast, a cautious economic projection that's used for fiscal planning purposes. It's certainly conceivable and likely that the economy can do better than that. We've seen, for example, over the last four months an average of 12,000 jobs created per month. At a 12,000-jobs-per-month pace you would come very close to 725,000 jobs—

Mr Phillips: I understand. I'd just like the estimate on how you got there, because all I see is that we have about the same number of jobs in December 1995 as we had in December 1994. I have to know how you did that.

You historically have used on revenue projections—you've had it in budgets that the revenue grows at 90% of nominal GDP. Is that still the formula that Finance uses for estimating revenue growth?

Mr Gourley: I'll answer that question in a moment, but before I do that I'd just like to draw your attention and the committee members' attention, you can actually see the two Decembers there, December 1994 and December 1995, on that chart and I'd ask Don Black if he wouldn't mind pointing them out so that you can see the point that you've just made, that from one year to the next, from December 1994 to December 1995, the point you made, sir, was that that's the same number of jobs.

Mr Phillips: Yes.

Mr Gourley: But you can see obviously from the average that there is a 71,000-job difference in the average over the two years.

Mr Phillips: I understand all that. I'm just saying that December over December has not changed. That's my only point. But on your revenue estimates, which we don't have but we're going to have to make some estimate because we can't get them, historically you've told us that you estimate revenue grows at 90% of GDP. That's what was in one of the budgets. Is that still the estimate?

Mr Gourley: Actually, my experience is that it has varied from as high as 0.95 to below 0.9.

Mr Phillips: So what do you use then?

Mr Gourley: At the moment I'm not using a rule. We actually do look at the individual revenue streams and calculate the revenue. Steve, perhaps you'd give some more detail on that revenue forecast.

Mr Dorey: Yes, we do a detailed bottom-up revenue projection and you'll find the elasticity will vary depending upon the revenue source. Part of the reason why we've sometimes used a rule of thumb that's somewhat lower than one is simply because if non-tax revenues don't change—in a lot of them there's no natural growth. But for a number of the revenue sources, like personal income tax, it tends to grow somewhat faster—

Mr Phillips: You've now given us a gross domestic product estimate. Can you provide us with those estimates as you've done in previous years of the growth in tax revenue by tax source? I realize there are decisions being made on tax cuts, but just assuming that nothing changes, can you give us the revenue estimate by major tax source over the next couple of years?

Mr Gourley: Well, the minister indicated that we would be providing that in the budget.

Mr Phillips: No, no, no. I'm speaking about providing it to us now.

Mr Gourley: Well, I believe the minister's indicated that he feels that that revenue and expenditure forecast awaits the decisions that the government has to make.

Mr Phillips: No, I'm not talking about any decision. I'm saying, just assume that nothing changes; can you give us an indication of the revenue growth over the next two years? You don't need any decisions; you just take your economic forecast and put it through your model.

Mr Gourley: Well, actually you do need the decisions in order to determine the revenue forecast. Otherwise, you can pick 0.9 or 0.5 and say that's my view of the elasticity of government revenues, but it won't reflect—

Mr Phillips: No, no. I'm sorry. I'm not trying to be difficult, but we have nothing from you right now on revenue estimates. I'm just saying you've indicated to us that you have made a judgement on economic growth—

Mr Gourley: That's correct.

Mr Phillips: You've indicated to us that you used that to estimate the major revenue sources. You don't need any decisions; you just need to give us the information. Is there a reason why we couldn't have what we've always had in the past, and that is an estimate of revenue over the next couple of years?

Mr Gourley: Actually, from my point of view at any rate, it depends on the decision the government's going to make, and I understand your comment that if you strictly start from the no-policy-change environment and move forward—

Mr Phillips: That's what we always do.

Mr Gourley: My understanding was that the minister indicated that he would be providing that in the budget by virtue of establishing the cost of the decisions that the government makes in both the revenue and expenditure side. So I believe it will be there.

Mr Phillips: Shouldn't that be information publicly available? I know there may be decisions on a tax cut, but assume the same taxes, nothing else; can the staff provide us with that estimate?

Mr Gourley: I believe the practice in the past, and I stand to be corrected, was that essentially the revenue and expenditure outlook that was provided in previous budgets was provided in the form of an update to this committee when it carried out its deliberations. So there wasn't a new forecast created at that time.

Mr Phillips: Just give us your current forecast. Don't create a new one; just give us your current. What we've always been provided with, and members across may not know this, but this showed last year, personal income tax revenue 1995-96, 1996-97; retail sales tax; corporate tax; employer health tax; all of those numbers. We've got zero now. I'm just saying, can we have those numbers?

Mr Gourley: Those were based on the government's budget. They weren't provided as—

Mr Phillips: No, no. They were updated for the current economy.

Mr Gourley: I stand to be corrected. My understanding is that those were the same numbers that appeared essentially in the ministry's budget at the time.

Mr Phillips: No, you stand to be corrected. The table represents the forecast based on third-quarter Finances and the Ontario Economic Outlook published on November 30, 1994. So it was updated completely for the information that was available, not of the budget, but completely updated.

Mr Gourley: I believe the minister indicated he would be providing that in the budget. I'm sorry that's not the answer that you would like, but I believe that's the answer the minister provided.

Mr Phillips: Isn't that information that the public is entitled to?

Mr Gourley: It is a matter of the decisions that the government has to make going forward, and part of what those forecasts will look like depends on the behaviour of the economy in response to the decisions the government has to make. I simply say that the minister said that that would be provided in the budget.

Mr Phillips: But I'm just saying, we're going to have people spending thousands of hours of time coming before us. Frankly, I understand why you can't give it to us, but I find it unacceptable the little information we've got to go on.

Mr Gourley: I was at a presentation a week ago with several economists at the University of Toronto. We had in the room every range of estimate that you could possibly imagine, and everyone who presented their case felt that they had a good reason and justifiable reason for the forecast that they presented.

Mr Phillips: So what's the point? I'm saying every year in the past we have had a revenue forecast and an expenditure forecast from the government. This year we don't. Why?

Mr Gourley: I believe the minister answered that question.

Mr Kwinter: In your document, the pink one, you state that, "Savings rates declined from 7.9% to 7.5%, one of the lowest rates since the late 1960s." Do you have any figures as to the amount of consumer debt through consumer credit and what is happening to that?

Mr Dorey: I do, but you'll have to give me a minute.

Mr Kwinter: While you're getting that information, the point I'd like to pursue is that I find it interesting that in that same paragraph you talk about, "Disposable income rising faster than nominal consumer spending," which indicates to me that notwithstanding people may be getting more income because the economy is improving, they're not spending it, and their savings have been depleted to the lowest rate since the 1960s. I'd be curious to know what is happening to their consumer debt and how that is affected, and then I'll tell you why I'm concerned.

1430

Mr Gourley: We had every question but that one.

Mr Kwinter: Okay. Let me tell you what my concern is. You've already admitted that disposable income is going up but people are not going out and spending it, and notwithstanding that, their savings are at the lowest level since the 1960s. Without hearing the figure—because I know the figure; I just wanted to know whether you knew the figure—I can tell you that consumer debt

is at the highest record in recorded history in Ontario by far, and it's gone up dramatically.

What you have is that the average consumer has depleted their savings, has increased their debt on their credit cards and borrowings and bank loans and mortgages and everything else, and in that environment right now, by your own admission, they're not spending. Even though their income is going up slightly they're not spending it.

What I'm saying is that in that environment you're going to have a tax cut that is going to put some money in the hands of the consumers. What amount we don't know, but it's not going to be hundreds of thousands, it's not even going to be tens of thousands; it's going to be whatever. It's going to be a relatively small amount of money. My question is, given your modelling that you must be doing, do you fully expect that these people are going to get that money and run out and start spending it when in fact they have let their savings get depleted and they have incurred all of this debt? My submission to you, my projection, is that most of those people are going to go out and try to increase their savings, reduce their debt, and you're not going to get the kind of impetus you think you're going to get from consumer spending.

So I then ask the question, why are you doing it? Why are you going out and borrowing money, putting the province further in debt without any benefit other than possibly getting some of those things better adjusted?

Mr Gourley: If I could just open with a comment and then ask Steve to give you the detail on that debt issue. In fact, it depends on who gets the money, as to whether they spend it or not. I think there is evidence to show that low-income individuals receiving a tax reduction would tend actually to spend it, in spite of all the comments you made, which I accept and obviously am aware of. It's not so clear that that would be the case with higher-income individuals. They may have alternate choices. They may choose to invest it; they may choose to do something else with it. So that difference in behaviour is there.

I'm not sure that answers your question about why, but I'd ask Steve to talk about the issue of the debt levels and any other comments he wants to make on behavioural response to a tax reduction.

Mr Dorey: Just in terms of the debt levels, I don't have the Ontario numbers in front of me, but Canadian debt is now 87% of personal disposable income which, as you note, is well above levels it's historically been.

With respect to the savings rate, yes, it's very low. The point though that people aren't spending is simply not true. Consumers have spent what they had and then some, and that's in part why savings rates have declined and debt levels have risen. I think, with pages 15 and 16 here, you can see that consumer spending has grown well in excess of the pace of growth in disposable income. In large measure, the problem is disposable income—

Mr Kwinter: Read your own material.

Interjection.

Mr Kwinter: One second. I just have to correct the record. On page 3, in the paragraph where it talks about personal disposable income, you say—not me, “with disposable income rising faster than nominal consumer

spending.” That's your statement, not mine, and now you've just said it's the other way around.

The Chair: I think you will have a chance to redirect that in the next round. Perhaps we could move to the third party. Ms Lankin.

Ms Lankin: Michael, you said, in answer to a number of Gerry's questions, that you think the minister had answered that he'll provide that information in the budget, and I understand the difficulty you might be under. I'll check the Hansard, but I thought that I got some commitments from the minister this morning in terms of information to be shared. I thought that when I asked for medium- and long-term GDP growth expectations, he said yes, and we do have medium-term here, not long-term—not revised, but okay, at least there's something we can talk about.

When I had asked around revenue expectations and expenditure expectations, pressures in the system, absent any decisions—and you're quite right; you can take a look back at the last tabled budget and/or the last economic statements and as they've been updated by the current Treasurer, without things changing, what would it look like?—I thought I got a commitment that we would get that. We're not getting that from you. Are you not able to give us that information here today?

Mr Gourley: I would be happy to check with the minister on his understanding of what his commitment was and get back to the committee and indicate that.

Ms Lankin: Your understanding is that you're not able to give us that information?

Mr Gourley: That's my understanding, that those data would be provided in the budget.

Ms Lankin: Presumably in the budget.

Mr Gourley: Right.

Ms Lankin: I don't want you to feel that I'm being rude, but I am going to interrupt you because I want to get a lot of questions out here and I want to try and keep the exchange short on both sides. Your minister took a very long time in answering questions and I'm good at doing that too, so I know the trick.

Presumably the budget, however, is going to show us the revised revenue projections as a result of decisions that the government has taken. We're here to advise the government on those decisions that they're going to take, if they haven't already made up their mind. So that's the information we want, you know: pre-decisions.

I also thought I got a commitment this morning, and boy, everybody else thought I did too, that you were going to present us with a number of different potential models of achieving the average 30% reduction in personal income tax and the projected costs of that. I didn't see that presented in the information and I am interested. Without going to that presentation right now, are you here with that information and prepared to—

Mr Gourley: No. I only had a brief moment to speak with the minister about what he had intended, and in fact he was off to another meeting, so he and I didn't have a chance to discuss it at all. I'll have to get back to the committee on that one.

Ms Lankin: Mr Chair, we're going to have a bit of a problem and I think you're going to have to start turning your mind to how we deal with this. That is crucial

information. When you take a look at the government's projections and the fiscal challenge, which is all described in how we go about balancing the budget, ridding ourselves of the deficit and starting to pay down the debt, we know short term what the government's plans are on expenditure reductions and some of the information, not all around that. The big piece that's out there is how that tax cut could be implemented.

This is not, like the minister said to the press in the scrum, a question that would affect the stock markets and all the speculation around if there's going to be a tax cut or not. We know there is. The commitment's out there. It's a question of how many different models there are that could affect a 30% tax cut on average across the board, and we know what some of the models—not that many of them.

I heard him this morning commit that that information would be shared. You're saying that you're not empowered to do that today?

Mr Gourley: I don't have that information with me. I'll be happy to come back to the committee and talk about that once I've had an opportunity to discuss it with the minister. I didn't have that. He and I were in separate meetings between the sessions this morning—

Ms Lankin: Yes, but there was an hour and a half. With all due respect, there was an hour and a half between this morning when that commitment was made and coming back this afternoon.

I am just wanting to put on the record my level of disappointment and unhappiness with the level of information that's being shared, the manner of presentation with things—most of this is already in the public record—nothing that sets out in a usable fashion for the committee. I don't blame you but I do note my objections to it.

Steve, let me turn to you and some of the charts that you spoke to. In terms of private sector forecasts, we heard the minister this morning say that you had taken a small-c conservative approach and many have been critical of that. As I look at the 1996 forecast and at 2.3%—it was slightly below the average of the private sector's forecasts in November—is that not in the last couple of years generally where the Ontario government has come in, somewhere between the mid-range and the low end? This is not extraordinarily conservative, is it?

Mr Dorey: Yes, that's right. I think in general we've tried to be quite close to the consensus. We may be a little more this time than in previous years.

1440

Ms Lankin: In fact, at this point, as the consensus has shifted down, we're right in the middle now, so it's no longer a small-c conservative assessment in that sense.

I'm interested in your numbers for 1997, in which you have a projection of 3.1% growth producing 100,000 jobs. Given that the private sector forecasts have dramatically decreased, and in fact you're higher than the high one now, presumably in terms of the short term to medium term, looking at 1997, you have revised your assessment and would have, as a result of that revision, different job figures than the 100,000 attached to the 3.1% growth. Could you share those with us?

Mr Dorey: In general, slower growth is likely to mean fewer jobs. As the deputy noted, these forecasts were generally done before the last round of interest rate cuts, and I think we'll just take account of all the information that comes our way, including private sector forecasts and external developments over the next couple of months, and build that into the budget forecast. We haven't revised since our November forecast, but certainly the private sector has tended to move downward and we would do the same.

Ms Lankin: Are you actually suggesting that in the various discussions you're having with your minister and with cabinet and P and P in those dreadful sessions where you show every two weeks that the numbers are getting worse, you haven't given them any kind of an indication of a revision in your thinking of growth in the economy, medium term?

Mr Dorey: Yes, that's right. We have signalled the direction, that the numbers we've seen over the past couple of months have been somewhat weaker than we expected. But no, we haven't produced a new forecast.

Ms Lankin: Okay. So essentially slower growth and fewer jobs, probably, as a result of that.

Could I ask whether either the revised private sector consensus of 2.3% and your own projection of 2.3% for 1996 and the 3.1% projection for 1997, which is likely to be revised down, takes into account at this point in time the economic drag as a result of the cuts in government spending and the projections of higher cuts than we had seen in the government's CSR and higher layoffs than we had seen projected in the government's CSR, so presumably higher economic drag than the one half of 1%? Has that been taken into account in these numbers yet that we have in front of us today?

Mr Dorey: We took into account, in our November projection, all the information we had in November, including the measures that were announced in November, so that's taken into account. It's not taken into account in the fashion of creating a baseline forecast and then knocking some percentage off for spending cuts. It's taking account of the effect that spending cuts would have on a whole variety of variables in the economy, including employment.

Ms Lankin: For every \$1 billion you take out of government spending, what's the rule of thumb in terms of the impact on economic growth?

Mr Dorey: At this point we're reluctant to rely too heavily on rules of thumb, given the magnitude of the kinds of changes that are being made. It depends to a large degree on what kind of reaction there is in terms of confidence, in terms of investment, and \$1 billion is roughly one third of 1% of GDP.

Ms Lankin: Is that the rule of thumb that you used a few months ago when I asked you that very question in a briefing? That sounds like a different number to me.

Mr Dorey: Yes, but what I'm saying is, that's simply arithmetic. A billion dollars is one third of 1% of a \$300-billion economy. The question then becomes, what kind of a multiplier would you then get in terms of the net overall impact, and I guess what I'm saying is, that would depend upon the reaction in terms of interest rates, in terms of confidence and so on.

Ms Lankin: If I'd asked you this question in April 1995, what would your answer have been? I'm sorry to put you on the spot. This is stuff that was always available. Maybe you can understand my frustration. Sir, don't shake your head.

Mr Spina: Don't tell me what to do.

Ms Lankin: This was information that was always available in terms of projections.

Mr Spina: Stick to the agenda. Don't talk to me.

Ms Lankin: Excuse me? Perhaps we could have a very interesting dialogue if you would like to engage in it. The information that your government is refusing to provide to this committee, to you as a member—I don't know if you care—to us as opposition—we do care—to the public who are going to come forward falls way short of the nature of the information that has been provided over the last number of years for pre-budget consultation.

I don't know why that is something you think is of no concern. I think it's of great concern, and it's something that should be put on the record and something the minister should respond to. How can we be expected, as a committee, to give proper advice and proper counsel from all the different perspectives—it's not just my perspective or Mr Phillips's or yours; from all the different perspectives—if we're not provided with the baseline information that is usually available to a committee such as this. I think it is an issue.

Mr Gourley: Could I comment on this issue? In part, we've been asked several times what are the rules of thumb, if you like, on these changes. I believe the answer to your question about whether the answer would have been the same in April as it is today is that it depends on your assumptions about what we're going to be facing going into the future. Let me illustrate if I might, by saying, for example, if your assumption is not a lot of change, but, "I'm looking for a billion dollars; that's all I'm planning on doing"—I'll use you as an example; you're the Minister of Finance and you say to a staff member, "What's a billion dollars going to mean if I take that out of the economy?" I presume we would say to you: "Where do you plan to take it out? What do you assume the federal government or the Bank of Canada is going to do, and is that all you're planning on doing?"

The Chair: One minute.

Ms Lankin: Perhaps that is something, when you check with the minister, you could find out; if you could share with us some of those different scenarios and what the economic drag would be.

I also ask, with respect to medium- and long-term revenue projections, expenditure projections, the modelling of the various options on tax cut and the information we were just talking about in terms of economic drag, if it is possible for you to have that conversation with him and provide the committee with your intentions tomorrow morning. It would be helpful to us as we head into the presentations.

The last question I have is with respect to the recent change in interest rates; we're seeing a reduction in interest rates. We know that has a positive impact in terms of the public debt interest and cost to government. Do you have any revisions either for this year or next year with respect to cost of public debt interest projec-

tions? What kind of magnitude of change does it take at the interest rate level to have an impact on those numbers?

Mr Gourley: Perhaps I could ask Mr Salerno to talk about the impact of interest rate changes on public debt interest costs, but I can say that we are looking at—

The Chair: Excuse me. Could that be a very short answer?

Mr Tony Salerno: The interest rate cuts will have an impact on the new borrowing the province would be undertaking. Depending on the level of borrowing next year and the timing of that borrowing, that interest rate cut will have a direct effect on the total PDI.

The Chair: Should we move on?

Mrs Marland: Mr Chair, could I respectfully suggest that we don't cut off the staff's answers? It's fine to cut us off, but in fairness to the staff, they should be given time to answer.

The Chair: It was my impression that he was almost finished. Had you completed, Mr Salerno?

Mr Salerno: Yes, I was.

1450

Mr Carr: It's good to see many of the faces. I've been on this committee for three or four years now. Gerry and I have been through it, and Monte.

Mr Phillips: I'm still over on this side.

Mr Carr: Yes. I've moved to the other side.

Mrs Marland: You're complaining; it's the first time in 10 years I've sat on this side.

Mr Phillips: I'll trade.

Mr Carr: I'm sure a number of you had a good chance to read my minority reports that came through over the last few years.

I had some questions on the numbers. On the quarterly update, the front page, you've got the total expenses at \$56 billion; that's capital and program spending. We've announced \$4.5 billion to \$5.5 billion in reductions. That would be for 1996-97, so in 1996-97 I take it we're looking at expenditures of \$51.5 billion to \$50.5 billion. Is that approximately correct?

Mr Christie: The specific expenditure number for next year is one we're going to look at through estimates. The caveat I would put in that calculation is that, first of all, of that \$4.5 billion to \$5.5 billion, I believe some were already imbedded in this number from July; the \$4.5 billion to \$5.5 billion contains some of that. But as important, I think, is that items like public debt interest and some other elements of our expenditure base will have some growth associated with them. The expenditure reductions you're talking about are with respect to a specific set of programs. Other programs, like public debt interest, will have some offsetting increases. The way that comes about arithmetically to give us an expenditure number for next year is through the estimates process, which we're beginning to go through now. So there is a number of steps still to be taken to determine a specific number for next year.

Mr Carr: That's where it got a little bit confusing. I know some numbers for July were in there, some of the cut numbers, and some weren't. Is there any particular reason it's so confusing? It seems more so this year.

Notwithstanding the fact that there has been a lot of cuts, more in six months than in six years, is there any particular reason the numbers seem to be a little confusing? All I'm looking for is some idea of—again, notwithstanding some of the changes that can happen—what we're looking at for the 1996-97 number if nothing changed. Is there any particular reason it seems to be so confusing this year as opposed to some of the other years?

Mr Christie: I think you've identified the primary reason, that there has been a number of changes made, a number of decisions taken already, in July and November, and those have effects both this year and next year. It's also the case that some of the decisions taken in November have a range associated with them for next year, and that's why we talk about \$4.5 billion to \$5.5 billion, or \$2.5 billion to \$3.5 billion. That range depends on the speed with which certain reductions announced in November are achieved. There is a number of things changing, probably more—as you noted—things changing this year than have changed in a normal year in terms of the structure of the finances, and I think that is a large part of why it's a little bit more difficult this year to keep track.

However, I think it's true that in any year the capacity to take last year's spending number and announce changes to it to come up with the next year's spending number has never been something that could really be done because of these other things that are changing—public debt interest, pensions, other aspects of the expenditure envelope that are changing. The specifics of those have to be dealt with in estimates to get to an actual number, which is then brought forth in the budget.

Mr Gourley: Could I add a small comment but I think a significant one in terms of the behaviour of the expenditures? It relates to programs of entitlement, if you like, such as social assistance and other transfers to individuals. I'm thinking here of payments to physicians, where the level of expenditure is dependent on the level of service provided. As those change, those kinds of programs are not within the control of the government in a direct way, as are transfers, say, to hospitals. Once you've announced the transfer to hospitals—the negotiations are under way, so it depends on where that's going to end up.

But the whole issue of government control over the spending envelope—obviously, as Bob mentioned, public debt interest is automatically driven by the borrowing and interest rate. However, these other programs do vary, so the government can't pick a point and say, "That's what it will be," for every program it administers.

Mr Carr: On page 55 we've outlined what we used to refer to as the goalposts of what the deficit will be. I think that's the page we've outlined; we've seen the graphs. The government has outlined the goalposts and that's what the deficit will be in each of the next—that's how we get it to zero. Now what we need to do is decide what the revenue will be, and it can change because of growth numbers, because of tax cuts, and then we have to fit the spending cuts in.

There may be minority reports where the other side may say, "To get to that, we're going to increase taxes,"

and our side may say, "No, it's more expenditure cuts." Would it be fair to say—I should have asked the minister—that that is really what you're looking for from this committee, some of the options it will take to get to those deficit numbers? They're the goalposts that have been set, they're in stone, and now how it's done—whether our side calls for a 30% tax cut and the corresponding reductions, whether the Liberals say a little bit of both and the NDP tax increases—is that what you in the ministry would be looking for from this committee as we move forward?

Mr Gourley: I think that was the invitation from the minister, that here's the clear direction. I would simply point out that there are other elements of the equation that influence the economy and which obviously drive both revenue and expenditures, and the committee, although it may choose not to, may have some views on monetary policy and on other matters affecting the national economy that they may wish to comment on. It would be useful advice to the minister.

Mr Carr: One more question. We've got \$7.6 billion coming from the federal government. They outlined the two years, so we don't anticipate over the next little while any changes in the federal transfer. What has been the rumour or the scuttlebutt coming out about the next federal budget? Do we anticipate any changes or will the federal numbers be fairly consistent over the next couple of years?

Mr Gourley: I'll make an initial comment and ask Mr Trick to continue the explanation. Mr Martin clearly said that his preference was to get announcements out early so that people could deal with them. He is talking about making reductions. There's been all sorts of speculation about where it's going from here, but I haven't heard any speculation about changing the announced levels of funding for this year or for next year, both of which have been announced. There is some discussion ongoing on, what should the distribution be of the reduced amount next year that would be fair? The current distribution of those moneys on the Canada health and social transfers, for example, are not proportional to the population, which they could be; they aren't that way now and that's the sort of item that might be under discussion. In respect of further announcements or further comments, perhaps some of the other programs, I'd ask Mr Trick to comment.

Mr David Trick: That's exactly right. Mr Martin has had a practice of giving everybody 12 months' notice before there were further reductions in major federal transfers, so obviously we're watching for the federal budget to see if there is any news, but I haven't heard speculation beyond what's already well known. As you see in the Ontario finances that came out last week, the two biggest federal transfer programs, EPF and Canada assistance plan, add up to about \$6.4 billion this year. As Mr Eves said in his November statement, we're expecting those numbers to drop by \$2.2 billion over the next two years and be in sort of two steps, about half each year. That's the best indication we have on the major programs. Some of the smaller ones, they change from year to year, but we really don't have any better information on that yet.

1500

Mr Carr: So that 7.6 will drop by about two and a bit over the next two years?

Mr Trick: Well, the two big programs which account for 6.4 of the 7.6, the best estimate we have at this point is that those would drop by 2.2. As Michael points out, if the feds change the distribution among provinces that would affect that, but for the moment that's the number we have.

The Chair: Do you have a short one, Mr Spina?

Mr Spina: Yes, thank you, Mr Chairman. I just wanted to compliment the staff on what I think is sufficient information for the basis of discussion. I think the opposition member's attack on my personal body language is indicative of her political focus.

In any case, if disposable income is increasing and savings are low, credit is high, where is the money going? This is my question. Is it going into consumer spending? Is there a trend there, is there a relationship in that regard?

Mr Dorey: Let me come back to that issue. Consumer spending has been growing more quickly than disposable income over the past several years and in part that's because growth in disposable income has been very, very low. It's been low both because there's been relatively few jobs created and it's been low because taxes have been increasing. With respect to the latest quarter, the growth in consumer spending and the growth in personal disposable income are very close, so there's relatively little difference in the savings rate because the two are quite close.

In general, though, over the past few years consumers have been in fact spending—or, their spending has been growing more quickly than their incomes have and as a result the savings rate has been going down and the money has, in part, been going to government coffers but that's—

Mr Spina: Thank you, that's what I wanted to hear.

The Chair: That completes our time on that first round. Should we move to an 18-minute round which would use up the time remaining, with your permission?

Mr Phillips: I'll make a comment. My background is business and I don't think I can get a \$10,000 loan with the information you've provided us here, with all due respect to you. I like the analogy Gary uses of the sports but this is the fog bowl. We're trying to kick a field goal and you haven't given us any indication of where the revenue and expenses are. Historically this committee has said—the Minister of Finance has come in and said: "We've got to hit a certain deficit. Give us your advice on the balance between revenue and expenditure and where should we balance off." But we've got one goal post and that's the deficit number, and nothing else.

I feel badly for you for us going on like this but surely if there are any business people on the other side, or any of experience, you'd want to have some idea—well, give me a hint here. What is our revenue forecast and what is our expense forecast? Because we have to hit this deficit number, but we really are flying in the dark, and I hardly know where to go.

I guess the one question I'll ask you and then turn it over to my colleague is one that Mr Carr asked and that

is that you've indicated that there's been \$4.5 billion to \$5.5 billion worth of cuts made over this fiscal year and next fiscal year. How does that split? How much was in this fiscal year and how much is in next fiscal year of that \$4.5 billion to \$5.5 billion?

Mr Gourley: The range was intended in part to reflect the fact that the targets announced in the reductions were over a two-year period and it depended on how much of those were achieved in a particular year. But I believe the split in that \$4.5-billion to \$5.5-billion range is that in the July announcement—and I stand to be corrected here—there was an announcement of about \$1.9 billion in cuts, and the balance were therefore in the November statement, but they were in respect of the expenditures that we foresaw. Actually, Bob, if you've got the answer why don't you go ahead.

Mr Christie: The savings of \$4.5 billion to \$5.5 billion are for fiscal year 1996-97, next year.

Mr Phillips: You said that part is this year and part—how much has been achieved this fiscal year and how much is still to go?

Mr Christie: Sorry, perhaps I am confused. Maybe by going over it a little bit it will clarify it, for me at least.

The figure \$4.5 billion to \$5.5 billion is a figure that will be achieved in 1996-97. Let me just go back and indicate that, of that amount, about \$2 billion was with respect to reductions announced in July and the remainder is with respect to reductions announced in the November statement. So there have been the two statements; each has contained expenditure reductions. Those two sets of reductions taken together produce \$4.5 billion to \$5.5 billion in reductions in 1996-97.

The reason there is a range is that there are a number of two-year cost reduction goals that were announced in the November statement. They were announced as two-year goals, so the range basically represents a degree of flexibility in terms of how much of those two-year goals are achieved in the first year, which is 1996-97.

Mr Phillips: How much was achieved? We've got less than two months to go.

Mr Christie: No, this is fiscal 1995-96; we're talking about fiscal 1996-97. That's the first year of the two-year cost reduction period that I'm referring to.

Mr Phillips: Okay, so you've cut \$1.9 billion already and this is a saving of \$4.5 billion to \$5.5 billion in 1996-97—

Mr Christie: That's correct. That's next year.

Mr Phillips: Yes—but not the following year.

Mr Christie: No, the following year will be somewhat more than that. First of all, you move to the high end of the range because you achieve the two years in the cost reduction targets. In addition, some of the reductions in major transfers were multi-year reductions, so by the time you get to 1997-98, you're both at the \$5.5 billion end of that \$4.5-billion to \$5.5-billion range, plus you have some of the second year of the multi-year transfer reductions being felt.

Ms Annamarie Castrilli (Downsview): My question deals with the Ontario employment picture. I note that in a document you gave us today it shows that the annual average employment in 1994-95 will be roughly about the same, 71,000 jobs. That, the minister told us earlier, is

based on 116,000 jobs created by the private sector, taking away a decline of about 45,000 jobs which left the public sector.

Materials you've also given us today indicate where the gains are, industry by industry. I wonder if you have some information with respect to the regional breakdown of the gains and the age groups. Let me tell you why I ask the question. You may remember that the Golden task force released a report which looked at the employment picture in the GTA. That report doesn't really match what I see here in terms of figures.

That report indicates that in fact the employment picture for adults in the GTA has steadily declined since 1990. There have been a few blips but overall it has declined, and they estimate that some 300,000 jobs have been lost in the GTA since 1990. This is taken directly from their report. They draw the conclusion that the link between economic growth and employment has been broken in the GTA and may very well be in other cities. Therefore, I'm really interested in knowing what the regional breakdown is with the figures that you have cited to us today.

Mr Dorey: I think the Golden task force to some extent—the picture is a little bit dated in the sense that there's no question the recession went on longer and was more severe in the greater Toronto area than it was in the rest of the province, but last year there were 71,000 jobs created province-wide. That was made up of a gain of about 85,000 in the GTA and a small decline in the rest of the province, so the GTA certainly has outperformed the rest of the province over the past year. There's no question that in the entire period 1990 to 1994 the GTA underperformed, but it's done much better over the past year.

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Ms Castrilli: Do you have some figures with respect to that? Could you provide us with a regional breakdown of the 71,000 that you have here?

Mr Dorey: Sure. Very, very briefly, it's an 80,000 increase in Toronto, an 8,000 decline in Ottawa-Hull—I'll just touch on the larger ones; those are the larger ones—and most of the other major centres were 5,000 plus or minus. So it really was a story of Toronto growing and the rest of the province basically flat with Ottawa seeing some decline.

Ms Castrilli: But still, the number of people who are unemployed or looking for work is double what it used to be in 1990 in the GTA. You're not disputing that finding of the Golden task force, are you?

Mr Dorey: No, not at all.

Mr Phillips: If we were wanted to see job growth of 180,000 in a year, what sort of economic growth do we need to see?

Mr Dorey: One hundred and eighty thousand is, off the top of my head, about 3.5% job growth. One would think, with reasonable productivity growth, you would be looking, over a reasonable period of time—something like 5% economic growth is probably consistent with 3.5% job growth.

Mr Phillips: Have we ever had a job growth of 180,000 a year for, let's say, three years or so?

Mr Dorey: We approached that in the late 1980s.

Mr Phillips: What was the GDP growing then?

Mr Dorey: The GDP was growing about that pace, by 5.5%. This would be 1985 to 1988.

Mr Phillips: So it's reasonable to expect—if you get economic growth in excess of 5% real growth, you can see—

Mr Dorey: Yes. We in fact did have economic growth in 1994 of 5.5%. Job growth was less than that.

Mr Phillips: Are we figuring we may see like three years of GDP growth of that magnitude in the next little while?

Mr Dorey: If you're coming back to our economic projections, and whether you can add three years on to the end of the projections we've done to 1997, I think that's possible. I think it's also quite possible that for 1996-97 the results will turn out to be somewhat better than we have projected.

We consciously use cautious projections because we know the grief that overestimating growth and underestimating revenue produces for us. So I wouldn't treat those as forecasts that are—

Mr Phillips: That's good because I think the plan is job growth of 725,000 over the next five years and that means, with your numbers, the last three years have got to be 180,000 a year and so you're looking at maybe 5% real growth to get there, I gather, is what you're saying?

Mr Dorey: That's conceivable, yes.

Mr Gourley: I just wanted to add—actually it was a question that you asked earlier, Mr Phillips, about the expenditure reductions and we will provide you and members of the committee with a table that shows the fiscal years 1995-96, 1996-97 and 1997-98 of the announcements so that you can see where we're getting the \$4.5 billion to \$5.5 billion.

I took from your comment—actually it wasn't a comment. It was just turning away from our answer that you didn't find it helpful, so we'll try in a table to enumerate where those expenditure reductions are taking place and why they actually grow in the outyears from the \$4.5 billion to \$5.5 billion, which it is in 1996-97, but it actually grows in the years beyond that.

Mr Phillips: Could we get the revenue forecast at the same time?

Mr Gourley: No.

The Chair: If you give that information to the clerk, we'll have it distributed it to the committee.

Mr Gourley: Yes.

The Chair: Thank you. Mr Kwinter.

Mr Kwinter: I just want to follow up on your modelling for the job projections based on the growth in the economy. Your comment to the effect that the economy is growing faster than the job creation indicates what everybody had known, that we are really going through a period of what is known as a jobless recovery. I assume that calculation takes into effect that you just can't take growth in the GDP and use a formula and say, "This is the number of jobs that are going to be created."

Mr Dorey: Certainly we don't do that direct one-to-one mapping. There is a strong cyclical component to productivity growth, and therefore the relationship between jobs and output does vary over the cycle. Early

in a recovery you tend to get more productivity and fewer jobs, and later on it reverses.

Mr Phillips: Just a quick question. I didn't have a chance to ask the minister this. The Ontario Financial Review Commission: Is it the expectation by the staff that you will be following the recommendations in this?

Mr Gourley: Our expectation is that we will report on the government's response to all the recommendations in the report. We adopted the primary one, that is to say of the Public Service Accounting and Auditing Board recommendations in respect of accounting for our budget as well as the public accounts.

Mr Phillips: So do you think we'll get the budget tabled before year-end?

Mr Gourley: Pardon me?

Mr Phillips: Do you think we'll get the budget tabled before the start of the fiscal year? I'm kidding.

Mr Gourley: That's a really interesting question.

Mr Silipo: Which fiscal year?

Mr Phillips: I actually am quite interested in the recommendations and I would hope the government would adopt many of them. In addition to the accounting ones, there were I thought some good ones around business plans and laying out a three-year revenue and expenditure forecast and stuff like that. I would hope they do that. I hope maybe this committee might follow up on that, Mr Chair.

I want to, at the risk of beating a whatever—

Mr Gourley: A staff person.

Laughter.

Mr Phillips: I'm sorry.

Mr Gourley: It comes with the territory.

Mr Phillips: In days gone by, we used to get from the ministry officials an estimate of revenue yields by various taxes, in a previous document. This showed that every time you reduced the personal income tax by one point, you lost \$275 million dollars. Is that still roughly the number?

Mr Gourley: At the risk of giving an answer—

Mr Phillips: I'll close my ears.

Mr Gourley: —that I've given before—

Mr Phillips: I'll close my ears.

Interjection: Where?

Mr Phillips: Somewhere.

Mr Gourley: I think the answer is—

Interjection.

Mr Gourley: Sorry. The answer is, it depends. I can assure you that the range is a wide one, and to suggest that we know, and I'll illustrate this, with any precision what the revenue yield or cost of a change in either direction—when we're talking about a move of one percentage point on either side of the current tax rate, I think we can be fairly confident that we can come up with a number within, I'll say, plus or minus—I'll dare say it—\$20 million on personal income tax. It might be that kind of range.

Mr Phillips: That would be useful, even that, because we never had that as a proviso from the ministry officials before. It was just that at one point it was \$275 million. So can I assume that if you update that, we're talking about between \$265 million and \$285 million?

Mr Gourley: The point I was going to make was that when you make a small change, you can then say, "This is what we think the estimate is." When you make a very large change, I can say without fear of contradiction that I don't think anybody knows. I think we can make a best guess, but when you make a dramatic change either on the expenditure side or on the revenue side, you will get things happening in the economy, responses, that you're not able to be precise about.

A classic example is the yield from a one-cent increase in the price of gasoline. When I was working for Mr Grossman and Mr Nixon, I believe the number we used to use was about \$150 million. It's now in the area of \$130 million, that sort of thing, if you change one cent. But if you change 10 cents, you're going to get a whole different response. If you change, as is proposed by the government, a major revenue component such as the personal income tax, or the expenditure side, as dramatically as proposed, there's going to be a substantial difference and we're going to be in a bit of unknown territory.

Mr Phillips: I understand that.

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Mr Gourley: So I'd express caution advising this committee or advising the minister about what the response is going to be.

Mr Phillips: But we have to make some assumptions.

The Chair: Excuse me. We'll move on to Mr Silipo.

Mr Silipo: I fear that the answer to my question may be more of "We're not sure," or, "We don't know," or "It depends," but let me try. I'm looking at one of the charts we were given this morning, the projected debt chart, which shows, as we noted this morning in some of the exchanges, that the debt will grow by about \$23 billion over the next five years. Can you tell us what the difference in that growth of the debt would be if we were to take out of the equation the 30% tax cut?

Mr Gourley: Well, to be frank, I feel that's the same question as to what is the cost of the tax cut, and the minister indicated he would be indicating his decision on the tax cut in the budget.

Ms Lankin: But he was providing us with options to look at.

Mr Gourley: This is predicated on the government achieving its planned deficit reduction.

Mr Silipo: Including the tax cut.

Mr Gourley: Yes. So all the government's plans, expenditure and tax changes—

Mr Silipo: I understand that.

Mr Gourley: —are all in there, and that's what's going to happen to the debt.

Mr Silipo: Right. The government is saying, "We're going to do the 30% tax cut however we're going to do it, we're going to reduce spending by however much we need to reduce it, and we will have, by 2000-01, a debt of \$120 billion."

Mr Gourley: That's correct.

Mr Silipo: Right. So let me ask it this way. Surely, in arriving at that figure, you must have made some assumptions about, if not—I would argue you've made some assumptions on a year-to-year basis in terms of how much you would attribute to the tax cut versus how much

you would attribute in other areas. Again, I sat around the treasury board. I remember the way those numbers get put—not put together. I don't know how they get put together; I'll confess that. But I've seen some of those numbers. If it's something that you're not allowed to tell us, that's one thing, but if it's something that you're saying you don't know, I find that harder to accept.

Mr Gourley: No, I think the minister gave the answer, that in the budget he will explain the cost of the tax reduction and the tax reduction in itself. So it's that I am not permitted by virtue of my minister's statement that the budget is the proper place in which to reveal that.

Ms Lankin: I just want to follow up on that, Michael, because I don't want you backtracking on the minister's commitment. I know you're going to talk to him. I specifically heard him give me a commitment that you will share with us a number of potential options, formulas, for arriving at the average 30% reduction in income tax and the costs attached to that so that we can provide some advice on what the best way we think is, given all the other issues, to achieve the government's stated goal of a 30% income tax reduction. While I understand that you want to have that discussion, I don't want you to sort of back off the commitment the minister made.

Mr Gourley: It's not up to me to back off the minister's commitment. I would certainly have that discussion with him.

Ms Lankin: As long as you don't do it for him. If he does it himself, then we'll deal with that.

Mr Silipo: I guess the problem that I'm having is that as I look at the next couple of weeks in terms of the exercise we're going to be involved in, it seems to me that this question of the tax cut is going to be one of the areas of discussion. I find it a little bit difficult to understand how we could be engaging with people in a serious discussion without knowing in effect what the range is. We could guess; we can make up our own numbers as best we can in terms of taking the numbers that you've got in the Common Sense Revolution. But it would just seem to me that it would make for the whole process to be much more useful and helpful to the government, let alone to the process, for us to have those kinds of options.

Let me put it another way. If we were to ask you, "What would happen if you did the 30% cut this way, by just doing a straight percentage cut across the board?" surely you could give us some numbers back about what that would mean.

Mr Gourley: Actually, there would be a variety of estimates that one could propose in response to that question just as you posed it. So I think I have to follow up with the minister, as Ms Lankin has said, and get back to the committee on that commitment.

Ms Lankin: There are a couple of points that I would like to raise. I think the first question probably goes to you, Steve, and it's related to some of the numbers in the economic accounts that indicate that the gains in GDP that we have seen have primarily been export-led. I think you've suggested that in the numbers?

Mr Dorey: Yes.

Ms Lankin: And yet there actually hasn't been a very big change in levels of unemployment. I think one of the things that we've seen over the past few years in terms of the restructuring that's taking place in industry, and particularly in the manufacturing sector, which has been heavily involved in contributing to the export-led growth, is increasing productivity. The investments that did take place over a period of years when investments were up were in equipment technology processes that increased productivity. So there has been, in spite of GDP growth, little change in the unemployment numbers.

One of the things I'm concerned about and a question that I asked the minister this morning was the economic drag as a result of the depth of cuts that are being taken and the numbers of layoffs that will come, and I would from my perspective relate that to being fuelled in part at least by the tax cut and the need to find the fiscal room, but irrespective of the reason, the economic drag from that and the lag between that and any kind of stimulus effect of the tax cut, if in fact there ever is, seeing a situation where we might actually fall back into a recession.

We can see that while profits are up over the projections, business investment is actually lower than projected. There's still some growth but it's much lower than has been projected. I wonder, when you put all that together, whether or not there is any fear at this point in time of sort of being dragged back into recessionary forces.

Mr Dorey: Let me start with the question of the manufacturing sector, productivity and so on. As you know, we went through a dramatic restructuring over the 1989-92 period in the manufacturing sector and saw a loss of something in the order of 20% to 25% of manufacturing employment in the province. In fact, though, of the 71,000 jobs created in the province last year—there were some negatives, but 70,000 were in manufacturing. So manufacturing employment was up at a good clip last year. It takes a while to make the transition, but firms are growing and that export growth is leading to jobs in the manufacturing sector.

In part, I think the weakness on the domestic side of the economy is obviously a concern. I think the housing sector is an area where we haven't seen much of a reaction even though interest rates have come down. But I think the balance there is still that the predominant strength is in the export sector, and that is beginning to create a significant number of jobs.

Is there a risk of falling back into a recession? Certainly. We had not expected to fall back into a recession in the first half of last year, and I think that caught a lot of people by surprise. At this point, the consensus among private forecasters is overwhelmingly that we won't see a recession in the next year, but that's always a risk.

Ms Lankin: I have a couple of quick questions now. First of all, Tony, you indicated in your answer about the effect of interest rates on the cost of borrowing and therefore on public debt interest that you'd have to take a look at what the borrowing requirements are for next year. Well, we know that because we know what the projected deficit is, and that's the borrowing requirement. The timing of the borrowing I understand, but we've got

some projections of what will happen with interest rates. Is there any projected change in the cost of borrowing for next year as a result of the interest rate decline and projected decline?

Mr Salerno: Actually, the interest rate forecast we use is an internally generated one that Steve is responsible for. But again, just to amplify a bit, it's the new borrowing and the rollover of the—

Ms Lankin: I realize that.

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Mr Salerno: I was just amplifying a bit. It's the new borrowing, the new financing requirements, plus the rollover of the old debt; in other words, maturing debt that has to be rolled over.

Ms Lankin: What do we expect to roll over next year?

Mr Salerno: Approximately \$6 billion.

Ms Lankin: Six billion?

Mr Salerno: Yes.

Ms Lankin: Okay. If there are numbers available that answer that question, because I understand we have much longer-term debt than the feds, they're on shorter-term debt, so their public debt interest is more susceptible to change in terms of the change in the interest rates; but if we have any numbers I would appreciate that.

Bob, let me ask you a question, just to share it around. In the Ontario finances, I was interested to see some of the numbers that were here in the in-year changes. Let me ask you, first of all, the deficit projection of 9.3, I can't remember, was that the July figure as well?

Mr Christie: The July figure on a cash basis was \$8.7 billion.

Ms Lankin: On the—

Mr Christie: On the new Public Sector Accounting and Auditing Board basis, recommended by the financial review commission, it was 9.3, and that was the level put out in November.

Ms Lankin: Okay. This is just an observation on my part, because I remember having some interesting thoughts when I saw 400-and-some-odd million taken out of capital over commitment, knowing that there's always slippage every year. Now I see 400-and-some-odd million being written off as one-time expenditures like on the costs with housing, for example, and things that wouldn't have been predicted prior to the new government because those were decisions that had not been taken. I also remember wondering whether or not we were going to be factoring in the reconciliation payments from the feds and one-time payments that we expected, because we certainly expected them, and lo and behold I see those there now; all of those taken out of the equation when the crisis was sort of magnified very much and now put back in. I'm interested and glad to see that the number is still staying at 9.3; it's just the little pieces underneath that seem to be changing. That wasn't a question.

David, a question for you now. Your deputy was a little reluctant to answer some questions about the yield per point of various types of taxation. I have some charts that have been provided by your ministry, and I'm sure they come out of your area, that I received since the new government in briefings, and I'm wondering, should I throw those out now? That information, is none of that reliable any more?

Mr Trick: These actually come from Steve's area, so I'll have to yield to Steve.

Mr Dorey: I wouldn't use the per-point yield tables to look at very large changes, because it all depends.

Ms Lankin: Okay. Michael, in your earlier comments and presentation—it might have been in response to an answer; I'm sorry, I don't know—you did make some comments, I think it was in response to Gerry, about the tax cut and the spending patterns of people who would be receiving—the spending patterns of disposable income essentially I think you were referring to. It's often talked about as consumption patterns, and you indicated that people at the lower income level are more likely to spend any disposable income they have than people at the higher income level. I think that accords with most commonsense thinking and viewing of this.

I guess one of the questions I have about how would an income tax cut produce the kind of stimulus effect, the kind of consumer confidence and the kind of job growth to take us to 700-odd thousand jobs at the end of this government's term, it comes about because at the low end of the income scale I see people in one hand getting a little bit of money back, on the other hand paying out all sorts of new user fees through municipalities and all the sorts of things that we see predicted with the new powers under Bill 26 etc; and at the higher end more, on a straight dollar basis, going to people because it's a progressive income tax system, and more of that money going into investments or perhaps luxury items offshore or vacations, but not the kind of direct spending in the economy that low-income people do with their disposable income.

Can you help me understand how that kind of a tax cut, as opposed to, for example—let me make it very concrete—a cut in sales tax, would produce the stimulative effect? Does one have more of a stimulative effect on the economy than the other?

Mr Gourley: Just in respect of the economic response, I'd ask Steve to comment on that. But in respect of my comments I was suggesting that there are different views as to what the response would be, and at this session I was at last week I was referring to, there was a bit of a poll of the audience and some people said, "Well, I'm going to spend it." Then I had the opportunity to remind people that there will be the fair share health levy that will offset some of that reduction that certain people will be getting, and one commenter said, "Well, that doesn't make any difference; I'm still going to spend the savings." So it was clear to the audience that our ability to predict the behaviour of individuals, even an entire population, is somewhat limited.

But the comments I made were intended to suggest, and I think there's a wide body of opinion that suggests, that certain people are more likely to spend that money and provide the stimulus than others, although I'm not certain because of the dramatic change that's going to take place. There is going to be a dramatic change, and so maybe I'll say my experience and the opinion of others which is based on small changes that we've seen in the past, small reductions and small increases—and I'm talking relative to this one that is proposed—maybe those opinions aren't any good any more.

Steve, I don't know if you want to talk about RST versus PIT.

Mr Dorey: Just very quickly, one of the things to keep in mind is that as we come much more integrated in terms of imports and exports with the US in particular a very large proportion of the goods we consume are imported, much more than has historically been the case, and since sales tax is principally applied to goods rather than services it's not entirely clear that a cut in sales tax has a more beneficial impact on the domestic economy.

Ms Lankin: Is that a suggestion that you're not going to merge with the GST, that there isn't going to be a harmonization take place?

Mr Dorey: Well, that wasn't a suggestion to that effect.

Mr Silipo: Mr Chair, just to pursue this question, I appreciate what the deputy is saying, that it's difficult if not impossible to come up with a finite analysis that says if you do this, this will happen. I don't think any member of this committee would expect that kind of finite answer. Certainly, even when we were looking at the projections in growth, we had a whole range there, as you yourself indicated, and as you pointed out you tended to be generally in the average between the upper and the lower ranges. But again I would just make the point that it's useful, it seems to me, for us to have even that kind of range of information because it would be useful for us to know and as we get into the discussion over the next few weeks for us to have a sense of within whatever range exists if you did cut in sales tax versus any variety of ways of doing a cut in income tax, what would likely be the differences?

Because if we don't get that and if the answer that we're not going to get that is, "Well, because the changes are so dramatic we don't know," then I guess it really makes me for one ask, "Then on what kind of a basis are we doing this other than because the government ideologically thinks that this is what they should be doing?" So I guess it really comes back to the same point that we've been getting at all morning and afternoon, which is we really do need to get more information in terms of what your sense is of what the potential impact would be, because it seems to me we can't do our work properly otherwise.

Mr Gourley: If I could respond. I take that comment and certainly I will include it in my discussion with the minister. One issue though that I am trying to be fairly precise on and I hope not unhelpfully so, and that has to do with using these point estimates or per-point yields in any situation. I used gasoline tax, but if I were to use tobacco tax, I think everyone in this room would say, "Absolutely, right on."

1540

We used to have a rule of thumb that used to be good. It's no longer relevant; it means nothing. When we were talking about a cent a cigarette or 10 cents a pack or whatever it was, we had pretty good confidence about what would happen, about the fact that smokers would continue to smoke etc etc. We have a totally different phenomenon going on in the economy and in fact we have a dramatic difference in the behaviour of individuals and consumers when we make changes to that particular

tax. So I was just trying to share with the committee at least my view that we have to exercise caution when saying, "For every point that you change this, this is what you'll get or you won't get." These rules of thumb in the situation that we're facing today are not as valid as they once were. I make that statement based on what I see from our perspective as Finance officials looking at the economy. It's not doing exactly what we're used to seeing.

As an economy, I think Ontario's experience was that we often fell into recessionary times faster and more steeply than other parts of the Canadian economy and we had the benefit of knowing that some time, when we came out of that recession, we'd come out faster and more steeply and, as it were, recover more quickly. Here we saw a modest recovery and we saw a recession following that recovery that nobody expected. So we're into times where it's very dangerous and I think problematic for people to say, "If you do this, you're absolutely going to generate that," so I think we need to talk about ranges of responses.

Mr Silipo: I think we all understand that.

The Chair: Thank you, Mr Silipo. Time has expired and we move to the government side. Ms Marland.

Mrs Marland: I'd like to return to the point that I was pivoting on this morning of this \$120 billion still in the year 2000. First of all, as I said this morning, that was very shocking to be faced with that reality and know that it might even be higher, and also, being a member of a government, which in some circles, from what I read in the papers right now, is not popular because of the cuts we are making and the decisions we have already made—although I must admit that I don't think being government is about being popular; it's about being responsible.

I'm just wondering two things: One is how much more would we have to cut, not in dollars but maybe just in overall percentage of our provincial budget, not to be that high at the beginning of the next millennium, and secondly, how does that project for five or 10 years after that? We're not stopping the spiral, because of the amount of debt and the amount of interest. It's not a very exciting picture.

Mr Gourley: I could make a comment. In fact, as the government balances a budget, it does stop the growth in debt and in doing so, it contributes to the central bank's ability to provide interest rate policies that are more appropriate to continued economic growth. Therefore, just balancing the budget will be a very major signal for the central bank as well as the economy, so there will be a stopping of that spiral, if you like.

What happens beyond the year 2000, 2001, obviously depends on whether the government decides to maintain a balanced budget or to introduce surpluses and conceivably, possibly, actually pay down some of that debt. But again that comes back to the issue of what the judgement is as to what level of public debt can be sustained or supported by the provincial economy, which, as Steve has mentioned, is \$300 billion. We're talking now in five years and the economy is obviously going to grow over that period, but the \$120-billion debt at that point in time will represent a significant percentage of the total economy as a burden on the economy.

It represents a level that may be sustainable from five years forever, so that a balance budget may be—though I doubt it very much—a sustainable fiscal policy after that. I'm sure there'll be other factors in the economy that will cause governments to decide either to run surpluses or to at least maintain balance. There is sufficient lesson, I think, in seeing public debt interest costs as a share of spending go from 8% to 16% in a very short time, to know that once you get on that pattern, it's very difficult to get off it.

Mrs Marland: It's interesting when you talk about governments running deficits. I don't know which statute it comes under, but I was always led to believe that school boards were not allowed to budget for a deficit, and I'm aware in my region of one of our boards, a very large board, having budgeted with deficits for the last six or seven years. First of all, is it an unwritten law or is there some statute that says school boards, as a level of government, cannot budget for a deficit? If that is the case, why have they been permitted to do that and why was there no penalty for them in terms of transfer payments the following year if they ran a deficit the previous year?

Mr Gourley: I believe the restriction is in the Education Act. I am not certain of that, and I'd be happy to get back to the clerk and provide an answer to committee members; I don't have the answer in respect of where the legislative restriction is on school boards, but I believe there is one. Why there is no penalty on it, so to speak, I'm not able to speak to. I think the Minister of Education or a deputy would be much better able to speak to that issue than me.

Mrs Marland: But I see it as an overall responsibility for all of us as elected representatives at any level of government. If we have guidelines and we don't adhere to them and the result is that we get into the kind of mess in a global sense that the province is in now, if we don't have some punitive disincentive there's no risk for anyone, and the upside, of course, is that you're more popular as a politician. Today politicians are unpopular anyway, so I don't think that position should be enhanced by ignoring it.

We do, as a province, give money to the school boards. I recognize what you're saying, that it comes directly under the Minister of Education, but ultimately it's the responsibility of the Minister of Finance to make the final rulings in terms of the budget.

Mr Gourley: I understand the point you're making. I'm not able to speak to it helpfully for the committee.

Mrs Marland: It would be interesting to find out.
1550

Mr Wayne Wettlaufer (Kitchener): Given recent reports in the media last week on the possibility that Ontario's credit rating would have been downgraded had our government not taken some of the strong actions it did, could you speculate on what effect that would have had in interest rates in Ontario and in Canada?

Mr Gourley: I want to ask Tony to answer the question, but I'd like to make a comment in respect of the downgrading of Metro Toronto's credit rating and the fact that it actually means something, that it will cost Metro some premium as it goes to borrow, and it is a

very important measure we should all be aware of. I don't think there's any point in engaging in speculation in terms of what might have been had we not seen the circumstances we've seen, but I think it is useful to talk about the importance of the credit rating itself and what that means to Ontario, particularly as it means it in part determines who we may borrow money from.

Mr Salerno: The importance of the credit rating is not only that it may certainly increase the overall cost of borrowing money to the province, but given the magnitude of the borrowing we must undertake, both to fund our current requirements and to refinance maturing debt, it's very important that we maintain access to the markets. A number of our investors would be restricted from lending to the province if our credit rating were reduced. Therefore, we would be in danger of maybe not having access to sufficient funds or having to pay exorbitant rates. A one-point drop in our credit rating may lead to 25 to 50 basis points; in other words, a quarter to a half a percentage point higher cost of money to the province.

Mr Douglas B. Ford (Etobicoke-Humber): I'd like to know something. We used to borrow money offshore, about 9% of what we needed, and then it went up to 18% and now we're at 25% or more. How high can you go? Can we get this money domestically? And why do they borrow offshore? That's another add-on.

Mr Salerno: We borrow offshore because the size of our requirements makes it necessary for us to access the markets where they're available. If we were to try to meet all our financing requirements in Canada or in Ontario specifically, the interest costs would obviously be much higher. We would crowd out the private sector to a much greater extent. Given that we have the flexibility to access other markets, it helps our domestic industry, leaves some room for it to access domestic markets.

The other thing to keep in mind, though, and I want to emphasize it, is that as we borrow externally we are not exposing the province to currency risks. In other words, when we borrow in US dollars or Japanese yen or Deutsche marks, wherever we're borrowing, we're always bringing it back in Canadian dollars so we are not taking any currency risk.

Mr Ford: Theoretically, is it helping our trade? For borrowing, say, Japanese yen or American dollars, do we have an opportunity to exchange it in trade dollars? It's gone from 9% to 25%, and sometimes when you get over that 25% figure, they end up owning us and dictating what we can do.

Mr Salerno: Ideally, you'd like to be in a situation where you're not borrowing at all.

Mr Ford: Well, we understand that.

Mr Salerno: In fact, it would be better if we were debt lenders. But given that we are in the situation we are in, it's prudent to access a broad array of markets to maintain the flexibility of our domestic industries to access the domestic markets.

Mr Ford: I realize we're borrowing here, but then we're lending there; I think the loaning aspect is to help our export industry to buy abroad. I just want to know how this mechanism works, because to me, if you borrow too much abroad they end up owning you, and I don't think you ever get out from behind it.

Mr Salerno: I think this is in part what the move to try to balance the budget is doing, to reduce our overall requirements and deal with that problem. As I said, obviously the best situation would be to eliminate external borrowing altogether.

Mr Spina: Back to my question earlier. I guess it's really a clarification, and it may have been what Mr Phillips was trying to get at. When I asked the difference between consumer spending and credit being high, savings being low, where is the money going, you indicated perhaps the government coffers. I'm wondering if there's a typo on page 3 of the third-quarter details. In that paragraph it says, "With disposable income rising faster than nominal consumer spending." I'm wondering if that should have been, "With disposable income dropping faster than nominal consumer spending." Maybe you could explain that to me. Was that just an error or am I not understanding that correlation with the chart?

Mr Dorey: Yes. You can see from the numbers in terms of the growth rates, which are in the brackets under the numbers, that disposable income is growing slightly less quickly in the latest quarter than consumer spending, so that's the relationship and that's what produces the decline in the savings.

Mr Spina: So that sentence is a typo.

Mr Dorey: That sentence is a typo.

Mr Spina: Besides analysing numbers, I'm sure you analyse trends. Do you feel we need a stimulant to restore more consumer confidence, in whatever form it may come?

Mr Dorey: Consumer confidence is driven by a variety of things. It's driven by employment. It's driven by income. Taxes have an impact. Interest rates have an impact. Yes, obviously we need a stimulus. Hopefully, interest rates will act as one. Hopefully, tax cuts will act as one. There's certainly a need for a stimulus for consumer spending.

The Chair: Thank you very much, gentlemen. It's 4 o'clock. I'd like to thank the deputy minister and his staff for appearing today.

Ms Lankin: Can I table a question for the ministry, and perhaps they can give us an answer in writing? In the minister's presentation there were some figures about per capita expenditures; it was on a consolidated provincial-local basis and it was said that was a more relevant observation. I noted, at least I think, that the per capita debt appears to be only on a provincial basis. I'm wondering if, in particular, you could do a comparison with the province of Quebec, which is the most like province. My understanding is that at the municipal level there's actually a heavier debt burden, and it would be interesting to see the comparison of per capita public debt, provincial-local combined, for Ontario and Quebec.

Mr Gourley: We could do that and provide it to the clerk.

Mr Phillips: Could I table my questions too, the ones dated January 26?

The Chair: They have been tabled to all the members, I believe.

Mr Phillips: But to see if we can get an answer to them, the ones dated January 26?

Mrs Marland: I thought there was an answer.

Mr Phillips: No. I didn't get an answer. I got something back, but I got no answers.

Mrs Marland: Oh, it wasn't the right answers.

Mr Phillips: There were no answers.

Mrs Marland: I just read them, actually.

Interjections.

The Chair: Those have been left with the deputy. Again, gentlemen, thank you very much for your attendance this afternoon, to the assistant deputies and the deputy.

1600

SUBCOMMITTEE REPORT

The Chair: Could the committee now turn its attention to the subcommittee report of February 1. Are there questions or could someone move?

Mrs Marland: I'd be happy to move the report of the subcommittee on auto insurance, with one slight amendment. On page 2 of the report, in reading this report, I think item 2(d)(i) is superfluous, because if you go down to item 6, it says the same thing about delegation to the Chair. So I'm suggesting that we delete item 2(d)(i) and just leave it as it's printed under item 6 of the report. I move the report with that amendment.

Ms Lankin: I think a proper procedure would be that the report be moved. If Ms Marland wants to move an amendment to it, that's fine, but I would point out to you that in fact the intent of those two clauses are very different, I think, from the perspective of those of us who discussed it in the subcommittee.

Item 2(d)(i) indicates that if there happen to be more presenters who request to appear before the committee than slots that are available, we will institute a process that is a fair attempt at ensuring there is a multiplicity of views that are brought forward.

At the point in time that we had this discussion, it was actually our expectation, based on our advice from Mr Sampson, that we are not likely to have more presenters' requests than spots available. That being the case, everyone who requests would get a time allotment. However, if there is an excessive number, there is a process that would involve the subcommittee.

Number 6 delegates to the Chair some of the decisions on schedules when we go out of town, for example, depending on the flights, the time in the morning that we start or the time that we break may change from day to day, depending on flights and travel arrangements, and it allows the Chair, with advice if it's requires from the subcommittee, to make that kind of decision. Also, in terms of the wording of the advertisement that's going to go out, we've delegated that to the Chair, and making travel arrangements. That's very different than if there are more presenters than slots available. The subcommittee wanted to keep hold of the ability to then discuss and go through a process to select presenters.

Mrs Marland: If I may respond, Frances, under 6(a) you mentioned schedule, advertisement and travel arrangements, but you missed the word "agenda." So in scheduling the agenda, you're scheduling the deputations, and it still says "with the advice of the subcommittee."

Ms Lankin: Margaret, let me make it very clear from the perspective of the subcommittee. It would not be the agreement of the majority of members of the subcommittee. Mr Sampson was there and he agreed with our recommendation. He had no problem with it.

It would not be our agreement, if there are more presenters than slots available, to delegate that to the Chair. There's a committee process for that. That's spelled out as an exception to the general delegation that we're making under 6(a), and there was all-party agreement to that in the subcommittee. I just want to make sure that you understand that there's a difference. You may do something different here as a committee, but the three parties all agreed to that process in the subcommittee.

Mrs Marland: Recognizing that the subcommittee report does go to the full committee for approval, I am still making that amendment. My interpretation is that the subcommittee is involved in the agenda and we are dealing with scheduling of deputations when we're dealing with the agenda. So my amendment still stands.

Ms Lankin: So much for the subcommittee process. That is not the agreement we arrived at between the three parties. My problem, Margaret, is that on a technicality you're saying it's superfluous and we would still be involved. We want it very clear, and there was an agreement between the three parties, involving Mr Sampson—he had no hesitations about this—that in that circumstance we would undergo a process, which is a normal process, of selecting the various presenters, and each party has a role to play in the selection of those presenters. That's why 2(d)(i) is there. It is not superfluous. It is an exceptional circumstance, if we arrive at that, what the process is.

I'm telling you that I would object greatly to that being delegated to the Chair with only the advice of the subcommittee. That's a very different scenario than a subcommittee decision around a process.

Mr Phillips: I think for the Chair's sake that the committee should proceed with the subcommittee's report as recommended. It's just that Bill 26 is fresh in my mind, and I think it would have been very difficult for a Chair to have to decide all by himself or herself, because you would have been, as they say, damned if you do and damned if you don't. I think what it does, Margaret, is to make sure that the Chair has the advice and the agreement of the three caucuses in scheduling witnesses. Otherwise, I think you put the Chair in an intolerable position because the Chair has to make the decision all on his own. Believe me, one of the three of us is not going to be happy.

Mrs Marland: May I make a suggestion, Mr Chair? First of all, I don't think there's any urgency to pass the subcommittee report now as opposed to tomorrow morning, I would assume. Is that right? It's not going to make any difference whether it's passed—

Clerk of the Committee (Mr Franco Carrozza): As long as it's done tomorrow morning.

The Chair: Tomorrow morning would be suitable.

Mrs Marland: Because Mr Sampson isn't a member of the committee, nor is he present in the room at this time—and he was the member representing all of us on the committee at the subcommittee. Normally the sub-

committee is made up of representatives of the committee, and we're in rather an unusual situation here, where the subcommittee members are not all here. I would be happy to table my motion that is currently on the floor until tomorrow morning, or maybe I should say by noon in case I can't reach Mr Sampson right away, and maybe we could do it the last thing before lunch recess tomorrow. In the meantime, I will speak with Mr Sampson to clarify what he said as a member of the subcommittee; not that I'm questioning what you're saying he said, but I would like to understand what's in his thinking.

Mr Silipo: I think that perhaps would be wise, although I think it would be wiser for Ms Marland not to pursue what I think she's pursuing and I think it had better be really clear. This is not fooling around with wording. This is a substantive change, what Mrs Marland is suggesting, from what's here before us. I'm quite frankly surprised, astounded, after the process that we went through with Bill 26, that government members would even be contemplating putting forward this kind of suggestion. You got agreement on allowing the subcommittee to sort out this particular issue if it becomes an issue, and I think for you to try to now hand to the Chair the decision to decide who's going to speak or not speak in front of the committee—after the sham of a process that we went through with Bill 26, for you to be even contemplating this, I just can't believe it. Talk to Mr Sampson. He'll also give you the benefit of what happened during Bill 26. But I'm really surprised that this is even before us.

Mrs Marland: Mr Chair, I would like to respond briefly. Tony, this is your first experience in opposition and I have been in opposition for 10 years. I can give you all kinds of examples where the committee as a whole did not accept a subcommittee's report for different reasons. I'm being perfectly fair, I think, in saying to you I've moved the amendment. I'm happy to discuss it with Mr Sampson, who is the parliamentary assistant responsible for auto insurance, and clarify it, and I have moved tabling my amendment. As you refer to the scheduling of Bill 26, I personally had no involvement or experience with that, so your comments are going over my head because I don't know what difficulties there were in scheduling groups at hearings on Bill 26.

Mr Kwinter: I think we have a basic and fundamental difference of opinion. The essence of committee hearings is to make sure that one particular point of view is not exclusively represented. I can tell you that over the years that I have sat on this committee we have had great concerns, with all due respect to my colleagues on my left, that when we went somewhere, only those representing their particular point of view—I can remember when we discussed at pre-budget hearings the idea of running this massive deficit we had all these people appearing, saying, "That was great, that was terrific." We had from the conference board the prestigious—

Mr Phillips: One of them is coming tomorrow.

1610

Mr Kwinter: I know. What happens is that it is absolutely critical to this type of thing that when the list of participants is selected, every party has some confi-

dence that it isn't being stacked. It's absolutely critical to what we're doing.

With all due respect to my friend Margaret, I think we have two separate situations here. One is the essence of what this committee is about, and that is, when a list of proposed attendees is drawn up, that every party be satisfied that it is not weighted one way or the other and that each one would have some input. It's another thing to give the Chairman certain discretion to make decisions where he doesn't have to reconvene the subcommittee—decisions based on process, decisions based on practicality—but to suggest that the Chairman would have the sole discretion to decide who is coming to this meeting is absurd to the extreme. It goes totally contrary to what we're about.

The only reason we have this subcommittee, and why everybody was canvassed to suggest who they think they'd like to have come—everybody put forward names and then in a spirit of collegial cooperation a list was determined that gave weight to everybody's concern. To suddenly find that when it comes to this committee that process is overturned I suggest to you is unprecedented and unreasonable.

Mrs Marland: It does say "with the advice of the subcommittee."

The Chair: Shall we table this matter until tomorrow just after 12 o'clock, when the presenter is finished, and we will revisit it? Is that acceptable?

There's just one other issue, and that is advice to the researcher in the direction in writing the report. I believe the researcher would like you to give some thought as to how that report would be constructed, whether it be constructed on a subject matter, whether it be constructed on individual speakers, and what value either of those two methods might give to the final report. If you'd give some consideration to that, we will revisit that subject Wednesday or Thursday of this week.

Ms Alison Drummond: No, actually Tuesday or Wednesday of next week. I'm hoping to distribute a possible outline for the report so that on Thursday afternoon, after witnesses have finished appearing, I can get some guidance as to what you might want the report to look like. You'll recollect that at the beginning of March, after your auto insurance hearings, there are only two days on the report, so you'll want a draft, and you'll want a draft that looks more or less like you want the finished product to look because two days is not that long to revise it.

The Chair: So that would be the final day of hearings, then, that we would give some direction and you can give

some thought to that as we proceed through the hearings. Is there a further comment? Mr Spina.

Mr Spina: I just want to address the comment Mr Kwinter made. I agree wholeheartedly that it should be an opportunity to have balanced input from all of the outside parties. But if I do a quick scan of the agenda over the next three days I find that, frankly, if I had to put a personal opinion on the direction of the presentation of some of the parties on this agenda, I would suggest to you that probably 50% or more, 70% of them will be against this government and this particular party. I would suggest that's not a fair opinion, and that's mine.

The Chair: I think we've adjourned that subject until tomorrow at noon, if I might.

Mr Kwinter: Mr Chairman, in all fairness—

The Chair: I might not.

Mr Kwinter: —I think I should have a chance to respond. I should tell you that I do not sit on that committee, I have no idea how the list was drawn up and as a result I have no—I'm not trying to push one list over another. What I am saying is that however it was drawn up, it was drawn up by a committee and there seemed to be all-party agreement.

The Chair: No. I'm sorry, Mr Kwinter, it was not drawn up by a committee; it was at the discretion of the Chair and I think it was fairly done. As Chair, I'm trying to be impartial, and I do appreciate the cooperation we've had today.

Interjection.

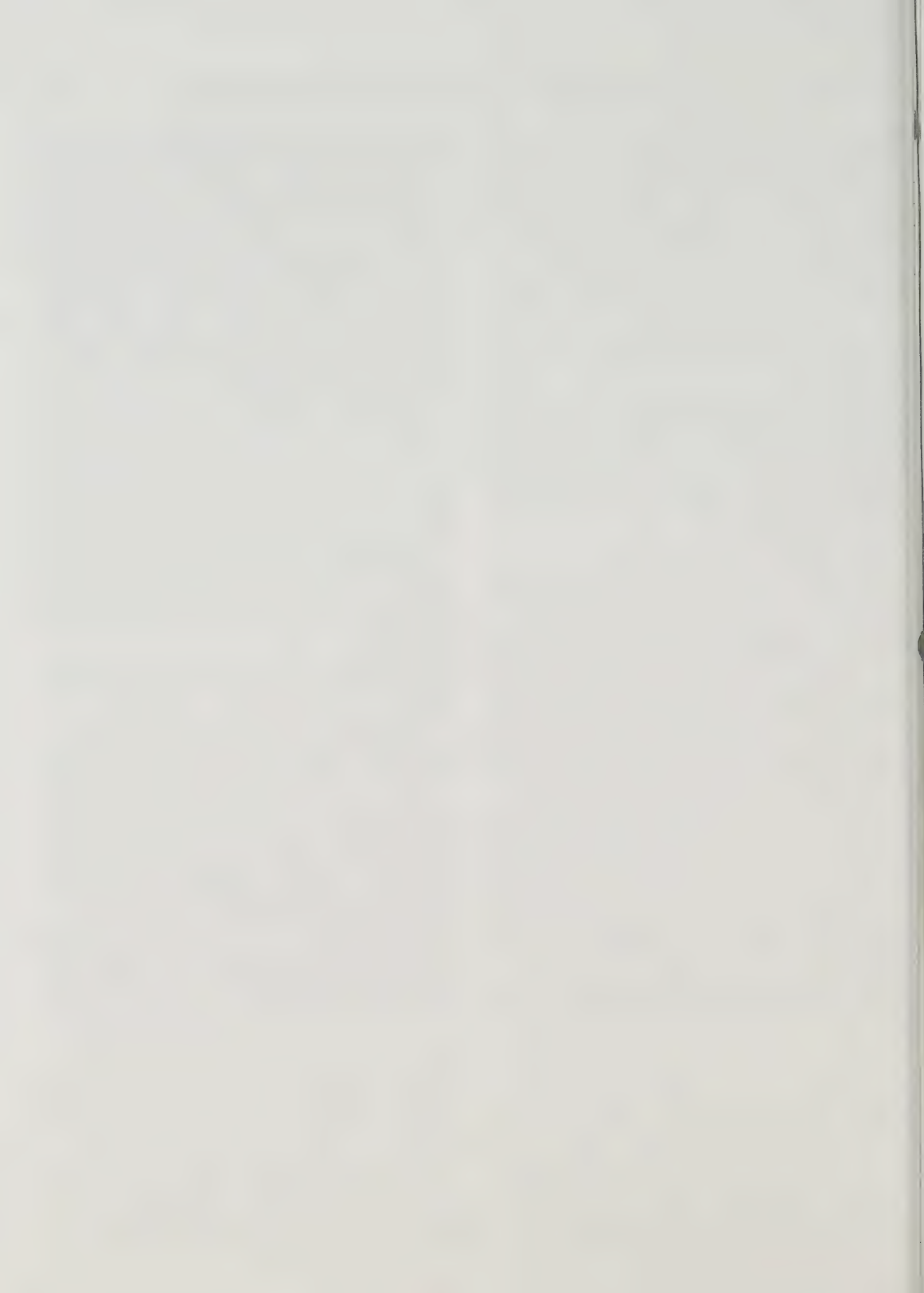
Mr Phillips: No, no. Just so Mr Kwinter is clear, the instructions from the subcommittee were that each party submit a list and—

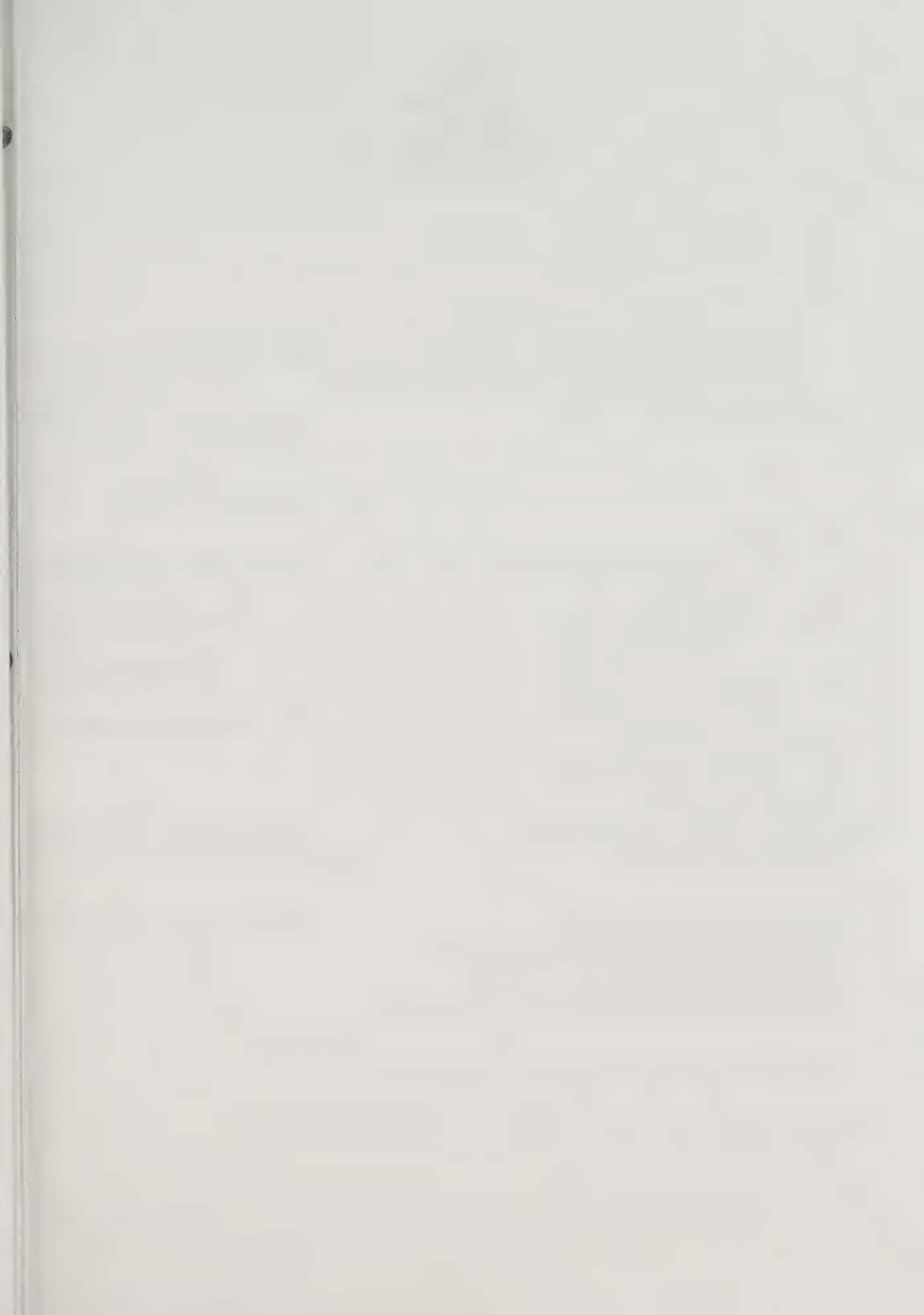
The Chair: We slotted them.

Mr Phillips: Yes, but let me finish—that each party submit a list, then it would be mailed out to each of those people on the list, and first come, first served. It's exactly as Mr Kwinter said, that each party was asked to put their list in. You did it, we did it, the NDP did it. The clerk sent an invitation out, and as they came in it was a very simple process. I assume that somebody in your group said to you, "Who do you want on the list?" and I gather that the people you wanted on the list are some of these people. So it was a legal process.

The Chair: I'm sure there will be further discussion between now and tomorrow noon. Until tomorrow morning at 9:30. I remind you to be on time. We will start promptly. Thank you very much for your attendance today and your cooperation.

The committee adjourned at 1617.





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*Silipo, Tony (Dovercourt ND)

*Spina, Joseph (Brampton North / -Nord PC)

*Wettlaufer, Wayne (Kitchener PC)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Bassett, Isabel (St Andrew-St Patrick PC) for Mr Arnott

Carr, Gary (Oakville South / -Sud PC) for Mr Sampson

Marland, Margaret (Mississauga South / -Sud PC) for Mr Martiniuk

Clerk / Greffier: Carrozza, Franco

Staff / Personnel: Drummond, Alison, research officer, Legislative Research Service



**Legislative Assembly
of Ontario**

First Session, 36th Parliament

**Official Report
of Debates
(Hansard)**

Tuesday 6 February 1996

**Standing committee on
finance and economic affairs**

Pre-budget consultations

**Assemblée législative
de l'Ontario**

Première session, 36^e législature

**Journal
des débats
(Hansard)**

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**Comité permanent des finances
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LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRS

Tuesday 6 February 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO
COMITÉ PERMANENT DES FINANCES
ET DES AFFAIRES ÉCONOMIQUES

Mardi 6 février 1996

The committee met at 0931 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Ted Chudleigh): I see a quorum present and all parties represented. My goodness, we're in good shape this morning. A question, Mrs Marland?

Mrs Margaret Marland (Mississauga South): Mr Chairman, I just wondered if we could have all-party agreement that when we are on a tight schedule, we will allow you to see a quorum even if all parties aren't represented at the scheduled time for deputations during our hearings.

Mr Gerry Phillips (Scarborough-Agincourt): I think we already gave him the ability to do that at the subcommittee meeting.

Mrs Marland: That's fine, but I'm not on the subcommittee, as we found out yesterday.

Mr Phillips: Okay, sorry about that. I think we adopted those minutes, though, at the last meeting.

Mrs Marland: No, we haven't yet.

Mr Phillips: No. Sorry to waste time, but the subcommittee brought its minutes to this economic committee and it was adopted by the economic committee. You weren't on it at the time, I gather, but I think you will find it's all in Hansard.

Mrs Marland: So you don't need me, is that what you're saying?

The Chair: Ms Lankin, did you have a comment?

Ms Frances Lankin (Beaches-Woodbine): I want to inquire whether the clerk received a response from the Deputy Minister of Finance with respect to the question of whether they would be coming forward and providing us with examples of options on the tax cut costing formulation.

The Chair: The clerk indicates that no one has contacted him at this point.

Ms Lankin: Mr Chair, you will recall that that was an outstanding issue and that I had asked the deputy to inform us by the start of hearing time this morning, so I would ask whether or not someone in the clerk's office might be able to make a call.

The Chair: We will pursue that.

Ms Lankin: For the record, I just wanted to indicate from yesterday's Hansard that my question to the minister was, "Would you provide this committee with a range of options of how you could accomplish an average 30% decrease in personal income tax and what the lost revenue projection would be so we can provide you with some feedback on that?" His answer was, "If Finance officials are able to do that, I certainly have no problem with exploring that dialogue with the committee."

CANADIAN FEDERATION OF
INDEPENDENT BUSINESS

The Chair: We now have the Canadian Federation of Independent Business: Catherine Swift, president; and Judith Andrew, director of provincial policy.

Mr Ted Mallett: And my name is Ted Mallett. I'm director of research.

The Chair: Please proceed. We have half an hour.

Ms Catherine Swift: Good morning, and thanks for the opportunity to appear before you today. I seem to have something infecting one side of my face, so I apologize for my mutant-like appearance this morning. Anyway, hopefully that won't affect the delivery.

Our brief you have before you. We've optimistically entitled it *Getting Back to the Black: The Bottom Line for Small Business and Ontario's Finances*. We've really covered an awful lot of issues in the brief. We're going to be touching on some key ones today, but if we do miss some, please don't interpret that as a lack of interest, just a lack of time.

Initially, as you may be aware, the CFIB has about 40,000 small and medium-sized business members in Ontario, and a lot of the information in the release is based on surveys we've conducted of them over the past few months to a year. One of the surveys we did late last year looked at the outlook for the economy and job creation.

We hear an awful lot of talk these days about downsizing in the public sector and so on, which is certainly happening and we think necessarily happening, but it's also worth keeping things in perspective. For example, when we look at the labour force data for 1995, we see that in Ontario private sector job creation was around 154,000 workers, which well outweighed the loss of about 56,000 jobs in the public sector. Throughout this recovery, albeit a very modest one, unfortunately, over the past three years, we've continued to see private sector job creation outstripping any losses in the public sector, and there's no suggestion that should not continue as long as the right policy directions are pursued.

Our most recent survey of our members in Ontario, interestingly enough, found them expecting some job creation, albeit not gangbusters, for 1996. But when we compared our results in each province across Canada, our Ontario members tended to be the most optimistic in the country. That's hopefully a positive sign for our province's economy this year.

Something we survey frequently with our members is what in their view is preventing them from employing more people, turning part-time jobs into full-time jobs and otherwise creating employment. The number one

reason that is always cited is of course the state of the economy, not surprisingly. In a recession you're not going to be creating jobs; in good economic times you're going to be. That's something we have some control over but obviously not total control.

However, a lot of the items over which government has virtually total control are also very key impediments to job creation. Things like payroll taxes are cited as number two by our members, and have been for a number of years as governments have increasingly depended on that form of taxation, which is a job-discouraging form of taxation.

Other things that are impediments to job creation are just the whole range of costly administrative measures, from everything that imposes an awful lot of paper burden on firms, which in a small firm the firm owners themselves often do, to other measures that discourage people from hiring people, for example, because it is extremely costly if indeed one has to downsize again and so on. Obviously, a focus on these issues would certainly enhance the potential to create some lasting employment in the province.

Overall our membership is supportive of the government's direction that's been laid out in the two economic statements so far to get our debts and deficits at least on some kind of sustainable track. Paying over \$9 billion a year on debt service charges alone is hardly defensible. We would all much rather have that money to spend in a more productive way on social programs or whatever. And of course our members well realize that the deficits are just deferred taxes, if not on ourselves, down the road on subsequent generations. Our members very much favour the government's adherence to the targets it's laid out for itself in that area.

One area that hasn't received the attention we feel it warrants, and this isn't just in Ontario but right across the country at all levels of government, is the whole issue of matching of public sector pensions. On balance, public sector pensions are about twice as rich as those in the private sector, and of course these dollars are matched by taxpayer dollars. Many pension plans in the public sector—not all of them, but many—have large unfunded liabilities as well; some are funded, however. When we're talking about trying to find some decent resources to hopefully soften some of the necessary cutbacks in a number of areas of government spending, this is one clear inequity. There is no good reason that the public sector workers should have benefits, notably pension benefits in this instance, twice as rich as those of their private sector counterparts, particularly when the private sector counterparts are subsidizing those pension plans. We'd just like to mention that area as one we're telling all governments they should be looking at for a little better distribution of resources in the future.

Something we'd also like to suggest the government could consider is the whole concept of balanced-budget legislation. You're probably aware that very stringent, but what we feel will be very effective, balanced-budget legislation was passed last year in Manitoba, and this would certainly assure taxpayers of the government's lasting commitment as well as imposing some real rigour. As we know, many governments over the years have had good

intentions but they haven't been realized in the ultimate outcome of the numbers.

I'll pass it to Judith now for a little more in-depth analysis of some of the payroll tax issues.

0940

Ms Judith Andrew: As Catherine mentioned, payroll taxes are one of the worst culprits in terms of their deleterious effect on small business and job creation. The other area, of course, is property tax, which we'll cover in a few minutes.

I wanted to bring to your attention our special concerns with the employer health tax, which we've been concerned about since it was first introduced in the late 1980s. This tax has an especially punitive effect on the smallest and youngest businesses, and we really believe it's important that this regressive burden is lifted so these small firms, who do have the best track record in terms of hiring net new employees, are not impeded from doing so.

We asked our members in a recent survey, "What impact does the employer health tax have on your operations?" The number one thing it does is reduce profitability and it also reduces cash flow. Incidentally, these effects are more pronounced in the north, which is of serious concern in terms of that impinging on the future prospects for those firms.

The EHT of course also increases payroll admin costs, it reduces hiring plans, it lowers salary levels and it hurts the ability to compete. Our survey also turned up—thankfully, a small number of firms, but almost 6% of responding firms said the EHT actually put them in a loss position. Payroll taxes and EHT-like taxes actually draw down the capital of the firm when they're in a loss position, and this is a major issue.

Accordingly, we are encouraging the government to exempt the first \$400,000 of the EHT at the earliest possible date. We see this as an evenhanded measure across all businesses that will begin to deal with the regressive tax on small business. Simultaneously, we believe the self-employed EHT should be eliminated as well.

I'd like to turn to the personal income tax side of things. There's been quite a lot of debate about this. From the bird's-eye view of the small business sector, it shows up on our harmful tax list as a problem for over 42% of our members. Ontarians are overtaxed relative to other jurisdictions. This obviously figures into investment decisions made by business people, it figures into residency decisions taken by young, educated individuals, and therefore is worthy of consideration.

You will recall from the hard facts survey data that Catherine outlined that the number one condition for hiring more employees is increased demand or orders, a response given by 82% of our members. Therefore, it stands to reason that leaving more of Ontarians' hard-earned pay in their own hands will permit increased spending on goods and services and all sorts of positive multiplier effects, one of which is jobs.

We are about to go into the field with a pre-budget survey on tax relief that will probe possible outcomes from implementing the government's pre-election commitment to cut income tax rates by 30% in three years, and we will make these data available as soon as we have them.

Our recommendations in this area, based on the data we have to date, would argue for implementing the PIT rate cut as promised at mid-year 1996, the earliest possible date of course, in order to realize early gains from the boost to the economy.

I'd like to ask Ted to carry on now.

Mr Mallett: Thank you very much, Judith. The property tax section begins on page 8 of our brief. Ontario is the most, and by far the most, heavily taxed jurisdiction in the country with regard to property tax, and Canada as a whole is the most heavily taxed—again property tax—jurisdiction in the world. That by itself shouldn't be a problem if the tax were efficient, fair and balanced and so on, but unfortunately it is not—far from it. It's distorted, it's antiquated and it is tilted seriously against the small business sector. That is a message we've been hearing more and more from our members and it's the subject of some major work we did in the past year.

Through a combination of deliberate policy acts as well as benign neglect, so to speak, on various aspects of the tax system, the playing field has been tilted very seriously against small business, as I mentioned. Provincial policy dictates that mill rates must be 15% higher on business than they are on everybody else. There is a business occupancy tax which is mandatory, which adds another 25% to a 75% premium on business property taxes, and because of old assessments and the use of within-class reassessments, it's had the effect of inflating the business valuation for property tax purposes.

The CFIB's survey that we conducted with 4,700 of our members early in 1995 found that the effective property tax rates on business were more than double those of tax rates on equivalently priced residential properties, and that's the average.

Individual property taxpayers could find their assessments or property loads widely disparate through all kinds of possibilities. Some pay 8% of their annual property value in tax; others pay 1%. That is a huge differential and it leads to widespread confusion about the tax system, distrust about the tax system and general distrust about local government and provincial government policy on this issue as well.

So why shouldn't businesses pay double the tax rate, many ask. The answer is that it stifles job creation, it stifles investment and it kills economic development. It may be convenient to be able to load more taxes on to the business sector from a local political point of view, but in the long term it has serious consequences to the economy. It's not geared to profitability for businesses; in fact, quite the opposite. Large profitable firms can deduct it; small firms, which tend to be less profitable, cannot. If you're not earning a profit, the deductibility is not a benefit.

The notion that businesses can pass these taxes on to their customers through price increases has also been shown to be false, because clearly it is an open economy. Customers can choose whichever products from wherever they want, and if there is a built-in tax premium within prices, then customers will likely move to lower-priced sources.

Finally, it's improper to say that businesses can afford these taxes and everybody else cannot. In fact, our research suggests and shows that small business employers tend to have lower average incomes than employees, on balance, across the country.

The CFIB made these points in our submission to the GTA task force, and we are heartened to see that they identified all the problems we identified in our surveys and that our members identified. Unfortunately, where it fell far short was in where to go from here and what to do with that tax premium that businesses pay, and have paid over the past 20, 30 years.

Our members believe that property taxes should be apportioned by class roughly according to the level of services they consume. That's the only way to ensure that taxes are fairly distributed among businesses and residents. It's the only way to encourage accountability of local governments and it's the best way to ensure that local governments are run in an efficient and equitable manner.

We also recommend the elimination of the business occupancy tax. This tax is taxed only on business occupants. There's no equivalent in the residential rental sector or homeowners and we believe it's arbitrary and it's distortional.

Finally, we believe that variable mill rates, which was an option that was put forward in the Golden task force, is a recipe for disaster. It will ensure that the tax system becomes disparate. There are no guiding principles on it, and local governments would continue to opt for the politically convenient route of ensuring that their costs are borne by the business sector and not by the voters within communities.

Seriously, we believe that the tax system has to be dealt with to ensure the long-term viability of the small business sector in this province.

Ms Swift: As you can see, there is a number of other issues that recommendations are made on: corporate minimum tax, for example, GST-PST, the non-tax fee burden etc, OTAB; but we figure we should leave some time for questions here, so hopefully you can read those. Now we'd be happy to take any questions you might have.

0950

The Chair: Thank you very much. I believe we have about 12 minutes. Could we get a short question and a short answer in? We'll divide into three.

Mr Phillips: So each group has four minutes? Is that what you're saying?

The Chair: Yes.

Mr Phillips: We'll try the short question. One of your first recommendations is to proceed with the elimination of the employer health tax on the first \$400,000 of payroll for all businesses. Do you have an estimate of the lost revenue to the province as a result of that?

Ms Andrew: It would be \$400 million. That was an estimate I had last year. I assume it hasn't changed.

Mr Phillips: I appreciate that.

Ms Andrew: It's roughly equivalent to the government's proposed fair share health levy.

Mr Phillips: The reason I ask is because the government refuses to give us those numbers. I'd say to the

members opposite I really think you need those numbers to make an informed decision. I asked for them in my written request to the government, that it give us an estimate.

Ms Swift: Those numbers have been around for a while, though, Gerry. We've used them for over a year. So that's been around for a while, that \$400 million.

Mr Phillips: No, I understand you've used them. I said we've asked the government to give us an up-to-date estimate on the numbers. They refuse. I appreciate you've got an estimate of \$400 million. You believe you were told that the fair share health levy raises \$400 million. We've never seen that number, by the way. But I appreciate your estimate.

Ms Andrew: That estimate came from the Ministry of Finance, but it's not new. It was an estimate well over a year ago when we were interested in having people look at this recommendation.

Mr Phillips: Good. You've indicated here that in your opinion the provincial personal income tax rate promise was due to kick in mid-1996 at the latest. Was that your understanding of what the Common Sense Revolution said?

Ms Swift: Not necessarily. I think that's our suggestion, because we think the economy could use it sooner rather than later.

Ms Andrew: Exactly.

Ms Swift: So that's our suggestion.

Mr Phillips: I gather you went through the document, though, and it shows here the \$2.2-billion revenue loss in 1996-97. I assume that because the employer health tax offset the other thing, the \$2.2 billion had to be personal income tax.

Ms Swift: But that would be the full fiscal year that you're talking about. It would click in earlier.

Mr Phillips: You would have thought that it was for a full fiscal year then. Your interpretation of the cut in the personal income tax was that it was for the full fiscal year then?

Ms Swift: Well, like I said, I don't think we had any particular information on that, but our recommendation was, the sooner the better. Given that we're into February now, I think we thought you're not going to change this in the middle of a month some time obviously, so mid-year is probably the soonest date one can feasibly enact it.

Ms Andrew: I think mid-year is the earliest legal date as well.

Mr Monte Kwinter (Wilson Heights): By law, you can only do it on July 1 or January 1.

Ms Swift: That's what I mean. Logically, you don't do it in the midst of some quarter.

Mr Phillips: But the \$2.2 billion, in your estimation, was a full year, I gather.

Ms Swift: I think it would be for a full year, yes.

Mr Phillips: Okay, I appreciate that.

Mr Kwinter: In your brief you talk about the benefits of the tax cut. We talked to officials of the Treasury department yesterday, and they all seem to think the same thing, that there's going to be a real kick to the economy. Yet, by your own members, when you surveyed them and you said to them, "When you get this employer health

tax—\$400 million—what are you going to do with it?" by far the largest number, 55.4%, said that they were going to pay down debt. Do you not think that's exactly the same thing that's going to happen to people in the general community as opposed to businesses?

Ms Swift: There will be some element of that, and that isn't a bad thing. When people lighten their debt loads presumably they free up other resources and what not. The financial community might not be that pleased about it, but I guess that doesn't break our hearts too much. We also saw with the EHT reduction a fair chunk of people—I think it was about 30%—were going to either—

Ms Andrew: It's almost 37%.

Ms Swift: —create jobs or make part-time into full-time or whatever. We thought the cumulative impact of those, on top of our forecasts that were already not terrific but not terrible for Ontario in 1996 among our members, was going to contribute to a boost. I think the logical thing is, of course people are going to pay down debt, but I would rather that than bankruptcy, which leads to further job loss and so on, which we've seen all too much of over the last few years, unfortunately, in this province.

Mr Tony Silipo (Dovercourt): Thank you very much for the presentation. Could I just focus in on a couple of things? You're clearly supporting and advocating that the government proceed with its personal income tax cut. Have you looked at whether, in terms of your members providing that tax cut, rather than through a cut to income taxes, doing it for example as a cut to sales tax, would be more beneficial?

Ms Swift: We haven't, actually. This came up when we appeared before the public accounts committee last week. I know just from past research I've read, at any given time you might have a different impact hitting one tax versus the other for roughly the same amount of money. I don't know that we have good up-to-date data on that, but if that is a debate, then we can certainly do some surveying on it and so on.

I find it interesting that we're probably having more debate on cutting taxes in this province than we ever had on increasing them, billions and billions of dollars over the last few years, but exactly where it's going to fall in the tax system I think it's tough to say without looking at where the marginal propensities to consume and all that kind of stuff is in the income tax system versus the sales tax. There's no indication that it would necessarily be greater on one or the other in terms of the impact on consumption.

Mr Silipo: It might be interesting to have some of those data.

Ms Swift: I think it might be interesting, yes. Obviously, more money in the economy is good, and exactly how is another issue.

Mr Silipo: If I can pursue another point, because time is limited. You make a point that certainly I would agree with of the high, relative to other jurisdictions, reliance that we put on property taxes in Ontario. One of the points you make is that municipalities should be required to tax property classes in proportion to the level of services that they consume. I just want to pursue that a

bit. If we applied that principle to the business side, presumably we ought to also apply it to the residential side. I just put that as a proposition.

I just want to pursue that and see if you would agree that if we were to do that, we would also then have to take a look at the many services that are now being paid through property taxes which are really beyond local services, whether you're talking about the social services or others, and look indeed at a different way to fund those, such as through the provincial level of taxation. Would that be a sensible approach, in your view?

Ms Swift: Possibly, yes. The whole system is such a mess it's obviously in dire need of repair. We think it is an ideal opportunity just to address some of the real inequities of all kinds that are in the system, one of which, that's glaring from our perspective, is this incredibly high differential between business versus residential, based on nothing but political expediency, and the politicians themselves will admit that at the municipal level.

Ms Lankin: Catherine, in reading your presentation I certainly understand the position that you put forward with respect to the overall levels of taxation and looking at property tax and payroll taxes and corporate income taxes and personal income taxes. I understand your arguments.

You also make a very strong pitch, though, about the need for deficit reduction and that deferring to deal with the deficit is just deferred taxes down the road. One of the problems that I'm having with the government's proposal for the personal income tax cut is that we will have to borrow the money to pay for that over the term of office; we will delay getting to a balanced budget.

The government is unable to provide us with information that says in fact it will have a stimulative effect in the economy versus other kinds of tax cuts. I think it would be helpful if your organization could do some work looking at sales tax or property tax or other areas: If the government is insistent on spending this kind of lost revenue on tax cuts, where would we have the most effect in stimulating the economy and creating jobs? My worry is that with the economic drag in terms of cutting government spending, no clear stimulus from the tax cut, at least until three years, and even then it's not clear what it will be, and a delay in dealing with the deficit, we might find ourselves sliding back into a recession. I'm wondering if you have any thoughts about that and if in fact you can commit to trying to do some work on alternative models of tax cuts.

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Ms Swift: Sure. We have no problem with doing the work on it. It would probably be interesting to do in this current economic climate generally, not just for Ontario but for other jurisdictions as well.

Our view for a long time now has been that when governments do attempt to cut back, which is finally happening after us recommending it for 15 years, you need some offsetting stimulative measures. They can take a number of forms. One thing we've recommended and are recommending in here—indeed Judith sits on the Red-Tape Review Commission. We feel that these days, when governments don't have a ton of money to throw around, one of the most stimulative and yet inexpensive

ways for government is to cut back on all that administrative burden. It hits small businesses particularly hard, but it hits everybody, so it would be beneficial across the board. That is a cost for business. Although it's not as quantifiable as a tax, say, or something more cleanly applied, nevertheless it is extremely, extremely costly for businesses.

We've made recommendations along those lines, but of course another key way is to reduce the burden of taxes. I find it so ironic that we're having way more debate about returning some money to taxpayers in this province than we ever had about picking their pockets, as we've done in this province and this country over the past 15, 20 years or so because it just seemed like the right thing to do.

Ms Lankin: Isn't it because of the level of service cuts that are attached with that? That's why the debate.

Ms Swift: That's possible, yet on the other hand we never really saw a whole bunch of service increases for all the tax increases we saw applied. We saw governments getting overgrown and we saw massive debt, which of course has doubled over the past five years in this province. It's clear the historical approach never worked. You're never going to be able to prove the future; you're never going to be able to prove that you'll get X number of jobs out of a tax cut of X billion dollars or whatever. We know the history, though, and we know the history is absolutely going in the wrong direction, so trying the reverse, one would think, would be a positive approach.

Mr Wayne Wettlaufer (Kitchener): Thank you, Catherine and Judith and Tim, for coming today. The presentation was very good.

One of the focuses this government has made is jobs. I note that Monte Kwinter had emphasized the amount of saving that businesses would do, but I also notice that in your 1995 Ontario provincial survey, EHT savings would be applied to hiring additional employees by 36.6% of your members. Doing a quick calculation, that translates into 30,000 jobs approximately if your member firms hired only one employee each as a result of the EHT cut. And that would be in the first year only; if we project that a little bit further, over a three-year period we're talking about 90,000-plus jobs. Do you have any indication whatever from your survey of how many of your member firms would hire more than one employee as a result of this?

Ms Andrew: That particular survey didn't ask that. That survey goes back to August 1995, and we are updating the same question and are about to go into the field with it shortly. It was hard for businesses last summer to predict what they'd do with a tax cut they might receive some time in 1996 and be very specific with regard to how many positions they'd increase. But we do take the 36% as a positive indicator that people would see the payroll tax burden being lightened up, which would allow them to begin to grow. Demand has to go up as well; that's another of the preconditions to growth, but hopefully if we get the economy moving in that direction, there'll be many more positive spins from it.

Mr Douglas B. Ford (Etobicoke-Humber): Ladies and gentlemen, I'm glad to see you here today for your

input. Do you think the government is moving too fast on these cuts we're doing, and if we did slow down the cutting, where would we get the revenue to offset those cuts? I'll leave that with Judith.

Ms Andrew: Our view is that cutting at government is long overdue. We have been disturbed by the growth of government over the last decade or more in the province, and we went through good times when government really ballooned. The taxes went up, and we squandered opportunities to actually get our fiscal situation in control here in Ontario. That led us into a recessionary period with also a very high debt, and it's a big problem. I think the time to bite the bullet is now. The new government has a strong mandate to be fiscally responsible. Our members certainly support that. Every indication we're getting from our members is that they're looking upon this positively.

Obviously, there'll be some pain as well, in terms of particularly things that are cut, so it has to be done intelligently with as much compassion as possible, but certainly our members support the direction, and there's no point in waiting.

Ms Swift: If I could just add a couple of things: For one thing too, we do have a growing economy right now, and as we've seen in other countries and to some extent in some places in Canada, if we wait until the next recession comes, and hopefully there won't be one but the likelihood is there will, then the cuts will be even worse and will be even more punitive on the groups that are disadvantaged.

So I think we have a two-year window from an economic standpoint, and I think too when you look at political realities, governments that don't cut and don't do their tough things early on are likely not to do them at all. So I think we feel, unfortunately, moving quickly probably entails making some mistakes, because it's difficult for a new government. I think we saw that happen in Alberta, if we can use that as an example. There's no doubt they made some errors, but overall they were heading in the right direction, and they're now reducing taxes in various areas and they've gotten rid of their deficit, they're start to attack their debt, and they're on an upward climb and they're ahead of schedule.

We've seen some of that in other provinces as well, such as New Brunswick, so I guess we think from the history, it's worth the odd boo-boo that hopefully can be repaired to move quickly and actually get the proper direction under way than to wait possibly not do it at all, and I don't even think you make fewer mistakes if you wait longer.

The Chair: I'd like to thank the Canadian Federation of Independent Business for coming in and making a presentation.

ONTARIO FEDERATION OF LABOUR

The Chair: Next we have with us the Ontario Federation of Labour. Mr Wilson, I understand, will be presenting. Gentlemen, if you'd like to come forward, would you be so kind as to identify yourselves for Hansard.

Mr Gordon Wilson: My name is Gordon Wilson. I'm the president of the federation. On my right is the

executive vice-president of the federation, Ken Signoretti. On my left is Ross McClellan, who's the legislative director of the federation, and on Ross's left is Chris Schenk, who is our research director. We thank you for the opportunity to be here.

The Chair: We have half an hour. You can divide that between presentation and questions.

Mr Wilson: On behalf of our 650,000 members, the OFL is pleased to make this pre-budget submission to the standing committee on finance and economic affairs for the 1996-97 budget of the province of Ontario.

We do so at a time of real crisis, we believe, for the people of Ontario. The government and its Treasurer are embarked upon an approach which we profoundly oppose, and which we know will result in permanent damage to the social fabric of our province.

Moreover, we are convinced that this approach is not only wrong but it is also unnecessary. Therefore, in this submission we want to set out the outline of a completely different approach to solving Ontario's very real problems.

Of course, we agree that Ontario's operating deficit is too high, that program spending cannot be sustained by borrowing, and that operating expenditures must be brought into balance with revenues. As I said in our submission on Bill 26 in Kingston, every family in Ontario knows that. That's not a revelation.

But we also believe that the Ontario government is seriously overreacting to the deficit situation and that it has failed to understand the true nature of the problem.

Ontario is not living beyond its means. Ontario is one of the wealthiest societies in the world with a 1994 GPP of \$302.5 billion. Our gross provincial product on a per capita basis for 1994 was \$27,743, which was higher than all but a very few nations in the remainder of the world.

Proportionately, Canada spends a lower share of our GDP on social programs than most of our economic partners in the G-7, as the following chart would show. We're fourth, behind Japan, Australia, US and New Zealand. We wind up tied with New Zealand at 18.8.

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We can also say as a fact that as of April 1995, Ontario's budgetary spending per capita was \$4,874, and that was lower than that of Newfoundland, Prince Edward Island, Quebec, New Brunswick, British Columbia, Saskatchewan and, please hear this, Alberta. But Canada and Ontario do face a crisis; on this we do agree. Where we disagree is on the nature of that crisis and, even more profoundly, on the solution.

First, we should recall the lessons of history. Fifty years ago, Canada emerged victorious from the Second World War with a colossal public debt which stood, in 1946, at 120% of GDP. But within a few short years that debt was retired. There was no magic, no voodoo economics. It was retired by a set of wise public economic policies which promoted a full-employment economy and vigorous economic growth. Fiscal and economic policies were put to service this economic growth, and behind it lay the overwhelming consensus of Canadians that having won the war, we would not lose the peace. We refused to allow the Great Depression of the Dirty Thirties to return. There was a deep determination that never again would

the unbridled and unrestrained forces of free market economics be permitted to wreck our economy.

It was the strength of this postwar consensus which created the mixed economy and the welfare state. For the 25 years following the war, with these consensus policies firmly in place, Canada retired its war debt and enjoyed unparalleled prosperity based on monetary and fiscal policies which promoted full employment, steady economic growth and a just sharing of the wealth of the country among all of our people.

That policy based on the postwar consensus has long since been abandoned and the destructive forces of the unbridled free market which created the Great Depression are once again wreaking their havoc. As part of the overall triumph of monetarism, the anti-inflation obsession of the Bank of Canada has led to monetary policies which have created a state of permanent recession. This reality is documented by Ontario's own Ministry of Finance in a technical paper issued in April 1995 entitled *The Role for Monetary Policy in Supporting Job Creation and Deficit Reduction*. A summary of this paper is attached as appendix 7 with this submission.

By "permanent recession," I refer to the fact that an 8% unemployment rate is now defined as full employment. Canada's real interest rates are kept higher by the Bank of Canada than those of any other G-7 nation, and there is a chart to illustrate that. Whenever economic growth threatens to bring unemployment below 8%, the Bank of Canada has acted swiftly to raise rates, choke off economic recovery and restore the permanent recession.

Since 1988, these policies have been applied with exceptional severity. Let me illustrate. Using again the Ministry of Finance paper referred to earlier, in 1994 Canada experienced strong economic growth, with Ontario's real GPP expanding at a record 5.5%. "This," says the Finance paper, "was the result of a substantial easing of monetary policy in the preceding two years. The three-month treasury bill rate, which was above 8% through most of 1991, dropped to an average of 6½% in 1992 and 4.9% in 1993, and this contributed to strong economic growth in 1994. However, it began to rise sharply in 1994 and it has been above 8% in March and April of 1995. There are already signs of slowing economic growth in early 1995." That's from the Ministry of Finance paper again. The citation is illustrated.

It is now clear that the Bank of Canada once again choked off Ontario's economic recovery in the first half of 1995. Interest rates are now headed again in the right direction, down, and stand today at 5.37%. There's some speculation they will come down even further with an announcement later today. But it remains critical that a stable, long-term, low-interest-rate policy replace the discredited monetarism of the federal government. When this is done, and we believe that a new consensus is emerging that this must be done, then the severe and socially destructive policies of the Common Sense Revolution are totally unnecessary, as we shall show. Economic growth can and will balance Ontario's budget in the 1990s, as it once did after the Second World War.

What follows, what we're setting out in considerable detail, is an alternative economic model to the budgetary strategy of the CSR. For a number of reasons it is not

and cannot be a complete alternative budget. For one thing, like the opposition, we lack the resources to construct such a complex document as the provincial budget. For another, the Treasurer has still not provided a public statement of his fiscal assumptions and projections beyond the current fiscal year. To compensate for this, we have used the fifth edition of the *Common Sense Revolution* as a base for our calculations, supplemented by the Treasurer's November economic statement, as well as the October report of the Dominion Bond Rating Service—hardly references from the labour movement in the traditional sense.

We hope that this alternative budget will be accepted as a sincere demonstration of our conviction that it is possible and realistic to solve Ontario's fiscal problems through policies which promote growth and at the same time preserve the essential public services which are the bedrock of the high quality of life we have enjoyed in this province. Our alternative budget model is based upon four fundamental premises:

(1) The severe spending cuts of the CSR can and should be replaced by a new fiscal policy which will freeze or flat-line program spending at the level it stood when the Conservative government took office.

(2) Ontario's revenue base should be maintained. The CSR proposal to cut the provincial tax rate by 30% should be abandoned. This will save the Treasurer the total cost of the tax cut, a staggering \$20.1 billion over five years, all of which has to be borrowed.

(3) The rigid monetary policy of the past decade must be moderated so that we can escape from the ravages of the permanent recession and a perpetual revenue crisis caused by a low-growth economy. The anti-growth policy of the Bank of Canada can and must be abandoned.

(4) Economic growth can and will retire Ontario's deficit. An approach based upon economic growth would generate dramatically better results than the severe spending cuts of the CSR.

In each of the six budget scenarios we are presenting, we have varied the assumptions found in the CSR document with respect to the level of increased annual economic growth. In scenario 1, we assume a 1% annual additional growth in the GPP; then in scenario 2, a 0.75% annual increase in growth; and in scenario 3, a modest 0.50% increase.

We have taken a very conservative estimate of program cost savings attributable to increased economic growth. The first three scenarios assume a \$100-million cost saving per year, and scenarios 4, 5 and 6 assume an annual cost saving of \$150 million per year. Finally, we assume a conservative 8% interest cost for public borrowing to calculate the changes in public debt costs over time.

Let me take you through our alternative economic budget scenarios. The detailed calculations are set out in appendices 1 through 6.

First, table 1 compares the spending program of the CSR with our alternative. We would maintain Ontario's spending base at the level the government claims it inherited from its predecessor, at \$48.9 billion, when it took office. This included all capital and operating spending and is the primary deficit. It excludes payments

against the debt, which are dealt with separately. We would freeze expenditures at \$48.9 billion until revenues and expenditures returned to balance.

Table 2 shows the huge increase to Ontario's deficit and debt that the proposed tax cut will create. By abandoning the tax cut, which will benefit the wealthiest Ontarians the most, Ontario will save a total of \$20.1 billion over the next five years, every penny of which must be borrowed by this government.

Table 3 shows the two components of additional economic growth. First, by abandoning the CSR, we immediately restore the average 0.40% drag which the CSR spending cuts will take out of the economy in each of the next five years. The second growth factor would result from the economic stimulus created by the Bank of Canada when it sets a long-term low-interest-rate policy. In practical terms, this means allowing the current interest rate trend to continue over the long term, and it is not at all unrealistic; it simply means maintaining the current policy on a long-term basis. We saw the payoff in 1994, the highest growth anywhere in the G-7, of a 5.5% gross provincial product increase in Ontario. Once again, I refer you to the Ministry of Finance technical paper, *The Role of Monetary Policy in Supporting Job Creation and Deficit Reduction*, for an objective corroboration of this approach.

Table 4 shows the dramatic cumulative effect of a 1.5% annual increase in economic growth, using as our starting point the growth assumption set out in the CSR document itself. Beginning with the added 0.40% growth from ending the drag effect of the CSR spending cuts and adding another 1% of GPP growth due to lower interest rates, the cumulative effect of this level of additional annual growth totals 8.7% by the end of the century. The CSR, you will note, assumes an average 0.40% drag in each of the next five years.

Table 4a translates that cumulative economic growth into revenue growth, using the Ministry of Finance formula that each 1% nominal GDP growth increases own-source revenue by about 1% or about \$400 million in additional revenue each year. By the end of the century, Ontario's base revenue under this budget scenario would have increased by an additional \$3.5 billion.

Table 5 shows the bottom line for the CSR strategy, a surplus of \$40 million in fiscal 2000-01. But recall, if you will, that the CSR budget calls for a tax cut costing \$5 billion at maturity and total new borrowing costs of \$30.8 billion between now and the 2000-01 fiscal year.

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Table 6 shows the bottom line for our first alternative scenario based upon a reliance on economic growth instead of tax and spending cuts. Scenario 1 assumes 1% additional growth in GPP with 8% public debt interest and \$100 million per year in program cost saving. In the final year we have additional revenue of \$3.5 billion generated by increased growth combined with the \$5 billion in revenue we saved by abandoning the tax cut. For fiscal year 2000-01, this produces a surplus of more than \$1.6 billion. Compare this, if you will, to the surplus predicted and generated by the CSR: a puny \$40 million, as set out in table 5. And recall our starting point: a freeze on spending at the level it stood when the govern-

ment took office, surely from the government's point of view a worst-case scenario.

Finally, table 7 shows the huge improvement in Ontario's debt-to-GDP ratio between the two approaches, which is certainly telling. Starting at roughly equal positions at a ratio of 33%, the CSR actually produces a worsened debt-to-GDP ratio of 36.4% in its final year; in other words, there is an increase. Our economic growth model produces a significant reduction in the debt-to-GDP ratio, which would stand at 30.2% by fiscal year 2000-01, significantly lower.

To test our alternative model under a variety of different growth assumptions, we have developed a total of six alternative scenarios, set out in the appendices attached to this submission. Each avoids the terrible pain and suffering of the CSR spending and program cuts, and we will quickly review for you three of them.

Table 8 shows the budget surplus which would be generated from 1% additional economic growth with debt interest costs at 8% and annual program savings from increased growth calculated at \$150 million per year. Instead of \$100 million as in scenario 1, the end result of this would be a surplus of \$2.2 billion, if you refer to appendix 4.

Table 9 shows the bottom line for a lower annual increased economic growth rate of 0.75%, with public borrowing again at 8% and annual program cost savings again at \$150 million. The final-year surplus is \$1.1 billion, as referenced in appendix 5.

Table 10 shows the effects of a minimal growth increase of 0.5% per year. Assuming again 8% and \$150 million in annual program savings, the model still generates a modest \$12 million surplus in the year 2000-01. The irony, of course, is that this outcome can be achieved simply by abandoning the CSR spending and tax cuts, thereby eliminating the CSR drag effect, together with an extremely small amount of extra economic growth, as can be illustrated in appendix 6.

In assessing the comparisons between the CSR budget plan and our alternative model, a note of extreme caution is needed. It is that the CSR document has seriously underestimated the true cost of combining a balanced budget with the 30% tax rate cut. This has enormous implications for the CSR bottom line of a \$40-million surplus predicted in the year 2000-01, as the DBRS report has pointed out. Without a long-term change in monetary policy, the CSR average growth rates of 4.4% GPP are optimistic. DBRS states on page 7 of its October report—theirs, not ours—that the actual deficit under existing conditions will be \$2.1 billion and not a \$40-million surplus, as the CSR claims to achieve. This further undermines the credibility, we believe, of the Treasurer's budget plan.

With regard to the tax cut, the terrible effects of the Common Sense Revolution spending cuts upon Ontario's social fabric have become clear to most people during the debate—whatever limited exposure there was—on Bill 26. It is clearly impossible for the government to honour its election promises to protect health care, classroom teaching, public safety and law enforcement while cutting such huge amounts from the base of the budget.

In this presentation, we have used the cutback figure of \$6.8 billion as set out in the CSR document itself, but in its October 1995 report the DBRS again has calculated that the true cost of the plan for a balanced budget, together with a 30% tax rate cut, will be \$9.6 billion. As the DBRS says, this amounts to an across-the-board spending reduction of 20% or, if health costs are really protected, as promised, a cut of 32% across all other ministries.

The tax cut itself is hugely regressive. Since it is a 30% reduction in the provincial income tax rate, which is a progressive tax, it will primarily benefit those who earn the most. In fact, our calculation is that fully two thirds of the total value of the CSR tax cut will go to the top 10% income earners or tax filers. On top of that, the rich will get more as individuals. A low-income Ontarian, in the \$15,000 to \$20,000 income range, will receive a paltry \$217 reduction, which equates to only 1.25% of their income. It will be more than eaten up by new user fees and municipal taxes, as have been prescribed and are announced by municipal governments. But a \$125,000 earner will receive a tax cut of \$5,087, which equates to 4.6% of their income. Even after the new user fees and other municipal taxes, the rich will be the only winners. They will spend their unneeded windfall on foreign vacations and on luxury imports, and the value of job creation will be close to zero.

Let me illustrate our concern in another way. It has been pointed out by the Canadian Centre for Policy Alternatives that a single millionaire will receive a tax cut of \$63,745. This will eat up the entire savings the Harris government made by cutting the welfare benefits of 17 single-parent families, mothers with two children. In other words, 51 people were impoverished to pay the 30% tax break for one rich individual.

Our position is very clear. The tax cut should be abandoned so that the essential services ordinary people rely on can be preserved.

A final word on the deficit itself. Public sector deficits and the public debt have not been created by spending beyond our means. They are the byproduct of some 15 years of neo-liberal and monetarist ideology which has inflicted an interest-rate policy that in an earlier age of the development of our society would have been described as usury.

In February 1995 the Dominion Bond Rating Service released a study which attributes 93% of increased federal debt since 1984—again the DBRS, not ours—to compounding high interest rates. The study noted that between 1984 and 1994 the federal debt ballooned from \$94 billion to \$508 billion, primarily, as they said, due to compounding interest on a relatively modest program expenditure deficiency. DBRS concluded that it is these sustained high interest rates “which are driving the deficit today.”

As long as a big spread remains between economic growth and interest rates, it will be literally impossible to retire the public debt. Deficit fighters who ignore this basic reality have as much chance of success as a rat catching its own tail.

In this presentation, we have argued, and I believe demonstrated, that neither the extreme spending cuts nor

the huge tax cut of the Common Sense Revolution are necessary. We have used the fiscal plan set out in the CSR document itself to show that an alternative strategy based upon economic growth would generate superior results on the bottom line. To be implemented, this strategy requires a new monetary policy for Canada based on a long-term reduction in the Bank of Canada's interest rates. During the fourth quarter of this current fiscal year, the bank has indeed lowered its rates to more desirable levels, and they currently stand, as we said earlier, at 5.37%. It is now a question of ensuring that the wisdom of the moment is not replaced by the usual folly as soon as the economy begins to take off. It also needs a new fiscal policy for the province of Ontario.

Let us recall that Ontario has not recovered from the catastrophic severity of the 1990-93 recession and there are still fewer people employed in Ontario today than there were in January 1990. What Ontario needs is sustained, vigorous, buoyant economic growth. The very last thing it needs is a repetition of the fiscal and monetary restraints which created the crisis in the first place. We would urge the Treasurer to abandon the tax and spending cuts of the CSR, to adopt this strategy for growth and to join with other Finance ministers across this country to secure a permanent end to the politics of austerity and the economics of the permanent recession.

We're ready to respond to any questions that members of the committee might want to put to us.

The Chair: Thank you very much, Mr Wilson. I'd like to take this opportunity to introduce a group of parliamentarians who have joined us from the country of Thailand. They are here to study our budgetary process. Welcome.

I would ask the committee's cooperation. We have two minutes each for questions, and we'll begin with the opposition.

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Ms Lankin: Will we rotate?

The Chair: Yes. Two minutes.

Mr Phillips: Historically, Mr Chair, I think your job is to like—the Liberals start it, then—

The Chair: Oh. By all means. Mr Silipo.

Mrs Marland: Right, and we need three minutes.

Mr Silipo: You need three minutes?

Mr Phillips: We'll give you one of ours.

Mr Silipo: Actually, yes, we'll probably agree to give you an extra minute. I'm sure you have some good questions.

I'm sure that our guests from Thailand may find this process interesting. They may actually get a little bit more information from the Treasurer than we've managed to so far in their discussions with the ministry officials.

Thank you very much for the presentation, Mr Wilson, particularly for going beyond what I think would have been certainly a legitimate position for you to take to have just limited yourself to a critique of what the government is doing but for going beyond that and putting together an alternative model, which I think has got a lot of things that would warrant, it seems to me, some careful consideration because you're making the argument that we can address the question of the deficit, we can bring the deficit down, without resorting to the

kinds of draconian measures that this government is—in terms of what the impact of what the tax cut will do and particularly in terms of the cuts that have to be done as a result of getting to that tax cut.

Really the only question, which is more of a comment that I have for you, is that I would say that the government, and particularly the Premier, Mr Harris, is venturing his whole political career on the tax cut, and my reading is that nothing is going to persuade him that he should not do the 30% tax cut, no matter what the economics of it are. I think we saw that revealed somewhat also yesterday in the Minister of Finance refusing to share with us a number of models that they're looking at.

I guess my only question to you is really, as logical as your presentation seems to me to be, what is your sense of how much this government is really going to listen to any alternatives beyond just simply the 30% tax cut?

Mr Wilson: I guess I can only base it on experience. I wrote the Premier on June 8 asking him for a meeting and I still haven't received an acknowledgement.

Mrs Marland: Mr Wilson, you said that you speak for 650,000 members. Can you tell me what percentage of the Ontario workforce that is?

Mr Wilson: I thought you were going to ask for all their names and addresses, Margaret.

Mrs Marland: Don't use up my time.

Mr Wilson: If the total labour movement would be accounted for, the level of unionization in the province is about 36%, 37%.

Mrs Marland: Yes, that's what I thought. I have to ask you, if it's as simple as you feel it is by your presentation this morning, did you make a similar suggestion to the previous government? Did you make a similar proposal to the previous government? The crisis didn't start in June 1995.

Mr Wilson: I think it's a valid question and in this volume of a submission, no, but then again we did not see a government embarking upon the cuts that we now have before us. So if we're to accept criticism, it would be valid for having not done it. I guess it took the scenery developing as it is to spur us to this level.

Mrs Marland: You say on page 14 that you want "a freeze on the spending at the level as it stood when the government took office." I'd like to know how you can defend, speaking on behalf of 650,000 hardworking people in this province, spending \$1 million an hour more than this province takes in.

Mr Wilson: Margaret, I'm glad you're not referring to them as special interests, as some of your colleagues do, although you and I share the view that all 650,000 of them and their families are very special. You agree?

Mrs Marland: I just said "hardworking people." And those hardworking people don't spend more than they earn.

Mr Wilson: That's correct and so we have to find a way to get ourselves out of the morass. We tried to refer to some lessons in history I think this government should look at, although I admit that there has been a power shift with regard to the economy and—

Mrs Marland: I'm sorry, Gord. I asked you how could you defend keeping the spending where it is, which is \$1 million an hour more than we receive?

Mr Wilson: I'm trying to tell you.

Mr Phillips: Stop picking on Gord.

Mrs Marland: Oh, yeah, right.

Mr Wilson: I guess, Margaret, it depends on your starting point. From the people I represent and work with I want to avoid the experience of the United States, which is very good for some people because now in the United States the top 1% of income earners control 42% of the wealth. In Canada, policies that are similar to the United States which are being implemented in various jurisdictions in this country are driving up that ratio of currently 1% owning 25% of the nation's wealth; it's an upward curve. So if you're in that 1%, it's a good deal. If you're the average person in this province, it's not a good deal at all; you're losing ground.

What we tried to illustrate is that the policies the government currently is embarked on, at the end of the day, when you take into account how high the deficit will be driven up by the borrowing that will be required by this government in order to apply the 30% tax rebate, beneficiaries of which will be mostly—

Mrs Marland: So you're not going to answer my question.

Mr Wilson: Listen to me. You asked me a question; I'm trying to tell you. I always thought you were a pretty open person.

The beneficiaries, of course, those who will most benefit from the 30% tax rebate, will be those in the upper income groups; to the lower people, it means a lot of hardship. It means at the end of the day you'll have a \$130-billion debt rather than the \$100-billion debt that you currently have.

Mrs Marland: How can you defend spending \$1 million an hour more than you're getting?

Mr Wilson: I just said.

Mrs Marland: No, you didn't.

The Chair: You're beginning to infringe on the loyal opposition's time.

Mr Wilson: Margaret, let me ask you a question, then, if I can. Your government has said that its policies under the CSR and the tax cut will result in 780,000 jobs. If that's true, that they can be created here in the province of Ontario, why didn't you make the tax cut 60% so we could have a million and a half people who would be put back to work?

The Chair: We'll take that question under advisement.

Mr Wilson: I'll tell you why: because the response that Margaret would normally give me in private would be that it would be ridiculous. The reality is that the projection of a 30% tax rebate creating 780,000 jobs is equally ridiculous.

Mrs Marland: I wouldn't give you any answers in private that I wouldn't give in public.

Mr Ken Signoretto: Can I just add something to that? I think this is important.

Mrs Marland: Can you defend spending \$1 million an hour more than you get?

Mr Signoretto: No, no. First of all, I don't know where this mythical figure of \$1 million—I just don't know. I don't think anybody knows. But the fact of the matter is, when you're talking about reducing the spending, those people with the lower income are the people

who really put money back into the economy. Those people who have to live on a day-to-day basis and who live from hand to mouth are going to buy the clothes or buy whatever, and you're taking money away from them.

On the other hand, what you're doing with the tax cut is giving money to wealthy people who will not put money back into the economy but rather invest it in some Third World country or some other place where they're going to get a better return on their dollar. Most of these people have no interest whatsoever in the Ontario economy. That's part of the problem. It's really important to get money into the hands or continue keeping money in the hands of those who are at a lower level.

Mr Kwinter: Gord, I want to compliment you on the work that you've put into your document. It's truly impressive that you've compiled all of this data. I notice that really the basis of a lot of your projections is on monetary policy and a change of monetary policy of the Bank of Canada. My concern is that the interest rates that are there are not done in isolation, we do not act in isolation, and that when you consider that most of the Ontario debt is offshore and that because of our competitiveness and because a good bulk of our industry is for export into the United States primarily, whatever happens in the United States really affects our interest rates. How do you propose that the Bank of Canada establish a monetary policy that will reduce interest rates given the fact that you can't get all of our other trading partners, in particular the G-7, to go along with the same thing?

Mr Wilson: I'm not too sure, Monte, that today you wouldn't get a good reception in France and Germany and Japan for what's developing in their economies. Again, somebody has got to get in this fray somewhere, because my frustration is that if you do not challenge the current monetary policy, there's no way we can get out of the hole. The numbers we have used are not our numbers; they're projections that have evolved from government records and from the private sector.

Our experience of a high-interest-rate period has been exactly that: We continue to accumulate debt, and it doesn't matter how much you cut; you can't get out of the hole. So the way that you've got to deal with that is challenge the problem. What we tried to do is give you a historical reference of how we were able to get out of the problem once before. I admit that there are some significant factors that have changed, but Canada still is one of the safe havens for investment. Canada is still one of the orderly societies in an ever-diminishing number of orderly societies that exist in our world.

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Investment looks at not only return but it also looks at security. At some point what I think Ontario can do is play an extremely important role in leading the charge within this country and pressuring the federal government to broach this subject in a serious way with its partners in the G-7. In Ontario we have an experience—we tried to illustrate—of growth equal to a previous period of low interest rates, and then we saw a bubble when interest rates went up and growth got strangled. But if you go back to the last 15 years, that's been exactly the pattern that's evolved.

What we're trying to point out here is that you can't get to digging yourself out of debt by simply cutting expenditures. You get out of debt by holding the line, cutting the fat where it has to be cut, but at the same time focusing on revenues. When you put policies in place that this government is pursuing, the only people who benefit from that process are people who are in the upper-income groups. Those people in the upper-income groups, I would venture to say, are being shortsighted. If they don't project down the road another half-decade or a decade, where does that leave them? If there's a continual erosion of the middle class and its consumer ability in our country, we will move to the political, social and economic instability that is experienced in countries that don't have a broad and secure middle class.

The Chair: Thank you very much, Mr Wilson. Our time has expired. I appreciate your coming in and making your presentation before the committee today.

Mr Wilson: It's nice to be able to talk to a member of the government, Mr Chudleigh. I appreciate that.

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The Chair: The next group that we have is Informetrica. Mr McCracken is an expert witness and will have 45 minutes as such. Thank you very much for joining us today, Mr McCracken. Please proceed.

Mr Michael McCracken: Thank you. You've invited me here to ask some questions. I would like to simply make a few opening remarks to provoke some questions and then I'll leave it up to you. This may be your opportunity to get back on schedule.

I'd like to essentially describe to you very quickly the current economic outlook as we see it, comment briefly on the Ontario fiscal moves and, to the extent possible, make a few suggestions for the 1996 Ontario budget that you're considering.

At the present time our best assessment is that the economy is slowing in the US, in Canada, indeed in much of the world. We currently are showing a US growth rate forecast for 1996 of about 2.7%, down from the 3.3% for 1995; our forecast for Canada is about 2.5% growth in 1995, down to 1.8% in 1996, down to 1.6% in 1997. These do include the effects of the unemployment insurance reforms announced in December and the recent Harris economic statement.

The net effect of the Ontario government moves in the December economic statement and the July restraints are expected to lower Canadian real growth by about 0.6%, and I'll go into that in a bit more detail in a moment. In 1996, most of that concentrated in Ontario, but not exclusively. There's more to come in Quebec, and other provincial budgets, and then the next federal budget, the sign of which we expect to be negative for the economic outlook. There does remain a possibility of a tax cut in Ontario some time in the future. I'll come back to that in a moment.

Whether we're in, coming out of or about to enter a recession depends on the definition of a recession used, but it is very clear that we have not been growing rapidly in the last year by any measure. The total employment increase in the last 12 months, through December 1995

was 88,000, of which 80,000 were part-time and 8,000 full-time nationally. There was a decline of almost 80,000 in public administration at all levels of government, implying an offsetting increase of about 167,000 in other sectors. The labour force increased by only 77,000 in the last year. This was about 150,000 lower than normal, reflecting a falling participation rate. In the overall economy through November, on a year-over-year basis, the total change has only been 0.7%, less than 1%, on a year-to-date basis; through November it's 2.2%.

With regard to the Ontario economy, weakness should be increasingly apparent and you'll see it in a number of places: rising unemployment, government revenues under target and an increase in bankruptcies will be some of the indicators. As other regions introduce fiscal restraint, this will also impact Ontario businesses which sell in these other regions. In particular, I'd keep an eye on the next Quebec budget. Of course, these other regions are feeling the effects of Ontario's cutbacks as well.

In the face of weaker growth in Ontario, businesses will cut back, even if they approve of the fiscal moves being made. With slower growth or absolute declines in demand, businesses will postpone expansions, postpone hiring or lay off workers and direct their expansion plans to other markets.

Consumers with weaker incomes will reduce their consumption and try to maintain their savings in light of increased uncertainty and, if possible, move to other jurisdictions where they may be employed or have greater opportunities. I think we've had enough experience over many years of observing the Canadian economy, all of us, to know that these are the underlying fundamentals. You heard the Canadian Federation of Independent Business earlier today talk about the importance of demand for business expansion.

In the forthcoming budget, it is important first, I think, to recognize that the actions that have been taken in 1995 have moved towards significant restraint, reducing spending by some \$5 billion in 1996, \$7 billion in 1997. Proposed tax changes might be as much as \$1.7 billion in 1996, \$3 billion in 1997. These are calendar-year estimates.

If in the next Ontario budget, additional cutbacks are implemented, then the fiscal drag will further dampen economic activity in the province. It would seem to make more sense to proceed with some fiscal stimulus, rather than further tightening if the state of the Ontario economy is seen as a provincial responsibility.

I have raised what may seem to you an odd comment, but I would point out to you that if the federal government continues to pursue further restraint, then it is not clear that there is any value in trying to offset their efforts. This was the trap that was set by the federal government that cost Ontario substantially in the last five years. As long as provincial governments absorbed the downloading from the federal government, they continued to reduce transfers to the provinces. As long as provinces tried to maintain employment the Bank of Canada kept monetary policy tight. The net result has been a fiscal improvement federally, but a substantial deterioration of provincial balances.

Any move by the provincial government to provide net stimulus should be agreed to by the federal government, with their undertaking not to offload while you are stimulating. If you are unwilling to make such a commitment, or they are unwilling to make such a commitment, then unfortunately you are in a vulnerable position by running a contracyclical fiscal policy.

There seems to me to be a bit of *déjà vu* in this comment. I think I made it about five years ago and we saw the results of that: our estimates of about a \$10-billion worsening of the provincial government balance in Ontario as a result of federal offloading moves.

I've also given you a more detailed statement which I will not go into in great depth, other than just to point out to you our Monthly Economic Review. It's a public document. In there, however, we do provide an estimate of the calendar-year bases Ontario cuts or changes in expenditures, also a first cut at our view of the personal tax. This is our view, not any official view.

Perhaps the interesting chart would be on page 4 in the upper right-hand corner for Canada in total. The cuts that have been announced only, the expenditure cuts, are estimated on a Canada-wide basis to reduce employment by some 60,000 in 1996, 130,000 in 1997 and over 150,000 in 1998-99.

If one includes a tax cut in the magnitude that has been suggested, there is an improvement from that base. The net loss, however, is still on the order of about 90,000 Canadian. In table 5, the employment impacts for the combined spending and tax cuts in Ontario are about 52,000 from 1997 out, about 31,000 in 1996, spending cuts only about 40,000 going up to about 80,000.

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I'll leave the rest of this for you to look at. The main point you should take away is that it's very difficult to see with this kind of fiscal drag where there's anything positive that comes out of this. It's also not clear at all that at the end of the day one will see any magic worked unless one feels that somehow your actions will lead to dramatic changes in interest rates, something which there is no evidence for.

Let me stop and throw it open for questions.

The Chair: Thank you, Mr McCracken. I think we have about 10 minutes each of questions, if that's satisfactory. We could start with the government side.

Mr Joseph Spina (Brampton North): Mr McCracken, you indicated that there are two things. One was you seemed to suggest that the debt load is solely the cause of federal government downloading. Did I understand that correctly?

Mr McCracken: No. I don't know why the federal government has done it. They have done it. They chose to do that. I think they continued to do that because they were not achieving the objectives they had set out in terms of slowing the economy and in order to reach their inflation targets. As long as you stimulated, they were quite prepared to continue. There was no political cost. No one was getting hurt down below you. You were absorbing it in larger deficits, so they continued—

Mr Spina: You mean the province?

Mr McCracken: You the province. They continued to download. I think as long as you act to insulate them

from the political backlash of cuts, they will continue to download, and maybe there's a lesson in that for municipal governments as well.

Mr Spina: So by implementing the spending reductions that we have done and are continuing to propose, then we are addressing that deficit situation.

Mr McCracken: Well, you're certainly addressing your deficit situation. You were worse than the federal balance. So the question mark will be, how do they make up that difference? Because keep in mind they also get a bit of the money that you would otherwise have been paying to people or that they would also get in the GST if you cut back on consumption and so on. So there is an effect on the federal treasury, and indeed it's elaborated in this note. There will be shortfall for them to make up as a result of your actions, as there will be in other provinces but yes, you will improve your deficit and your debt position as a result of these moves.

Mr Spina: You also mentioned the word "stimulus" a couple of times. I didn't hear, and if you did have a suggestion I missed it, but what would you propose could be a reasonable stimulus for consumer spending?

Mr McCracken: I think there's any number of choices, keeping in mind that the big question will be the net effect of what you do. Even if you, for example, deliver a tax cut, as you have indicated a desire to do, we have shown in here that it will act as a stimulus compared to today's base case, I mean, the post-December statement. If, however, it is of the magnitude that you're discussing, it will only go partway towards the restoration of the jobs that were lost by the actions taken in July and December of last year.

But certainly tax cuts are reasonable in terms of what kinds of tax cuts. Basically what you want to look at are tax cuts in which you do in fact get what you're after at this juncture, which is an increase in spending activity. These tend to be best served by tax cuts which put money into people's hands who have a high propensity to consume, not save. Those tend to be lower-income people. Or it's taxes which are tied to their actual spending behaviour, so reductions in indirect taxes, or sales taxes, would represent another area that would be more fruitful than—let's call it personal income taxes at the high end or a personal tax cut that you only earn by increased savings, which would have zero effect, or even a negative effect, on the economy.

Mr Tim Hudak (Niagara South): Thank you, Mr McCracken, for your presentation. I have a couple of basic economic questions, if I could. The question concerns the level of government spending as a percentage of GNP and the relationship that has on productivity in the economy. My understanding is that the larger the proportion the government makes up of the GNP, at least the province of Ontario, the lower productivity is. Does that relationship exist and what does that mean for future generations?

Mr McCracken: Well, we should first distinguish two classes of spending, one of which is part of GDP, that is goods and services that governments use, the resources that they use—this would include what they spend on health, education, roads etc. The other component that sometimes gets thrown into government expenditure is a

share of GDP, or other what we call transfer payments. These are not putting demands on resources of the economy, but rather are transfers from one group to another.

If you look at the shares of government in the Canadian economy as a share of GDP, the resource use has been going down. The spending, for example, on infrastructure by both the federal and the provincial and the local governments has been declining from numbers at the 6% of GDP level back in the 1960s down to about 2% of GDP at present.

To the extent that infrastructure has a link to productivity, and there is some evidence that it does, the impact of government actions in the last 25 years has been to reduce that spending and presumably to reduce productivity growth and, indeed, many people think that is, in fact, what has happened.

In other areas, direct spending might be on, for example, a regulation of the marketplace, on providing health, on providing education. These activities, if done efficiently, presumably contribute to productivity growth in the private sector. It's important to have a healthy person show up to work, it's important to have a well-educated person show up to work. So in that sense it would seem to me a positive effect on the productivity growth in the delivery of those systems.

But governments have been, by and large, getting tighter, if you will, in their management of their goods and services spending. This is not unique to this province, it's not unique to any one level of government. It has been a characteristic that, by and large, government goods and services spending has not been growing as rapidly as, for example, the population or demographic basis underlying it. What we have been spending more on government activities is in servicing debt, in providing social transfers in the provincial level in social assistance, and federally at UI. In those areas though, those are not using up resources, those are reallocating through one group who has to those who don't.

Mr Hudak: Would the net effect of the increase in the government's proportion of GNP, say, over the last 15 years be negative on productivity then?

Mr McCracken: As I say, it's been going down, so if it has an effect I would suspect it is part of the explanation for why productivity has gone down. If we continue to cut it, there's no reason to think that we won't continue to have a negative effect on productivity. If you can't get from A to B because the roads don't work, or if people can't get to work because they're unhealthy, or if people come to work who are uneducated or illiterate, then it's going to have an adverse effect on productivity.

Mr Hudak: With respect to the black market—

Mr McCracken: The so-called "underground economy."

Mr Hudak: Exactly—the shift in resources from the aboveground economy to the underground economy, does additionally increasing government spending or intervention in the economy increase the share of resources going to the underground market?

Mr McCracken: It may, although there's little evidence of that. There are also many different underground markets, including illegal markets, which we don't

measure in the national accounts at present. But Statistics Canada has done a rather extensive examination of the underground economy last year, and concluded that it may be, at the upper end, of a magnitude of something like 2% to 3% of GDP in terms of its total size.

The point, I think, of the exercise is that regardless of what's happening there it's not a sufficient explanation for the deterioration in economic performance we've seen over the last 20-25 years in Canada.

Mr Hudak: If we captured that 2% or 3%, for example, and brought that back to the open economy—if that was 2% or 3% of the Ontario GDP, for example—what impact would that have on job creation?

Mr McCracken: Well, roughly you'd pick up 15% of it in revenue, if you were able to bring it in, of that amount, that is of the 2% or 3%. I would think it's likely to be rather small, keeping in mind that you are already getting some of the revenue because people who have illegal incomes still buy goods and services on which the sales tax is applicable, and people who provide services then in the legitimate market will pay tax on that incremental activity. So it's something that we all would say, yes, let's do it, as a matter of fairness and a matter of focus, but it's not going to solve your fiscal problems.

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Ms Isabel Bassett (St Andrew-St Patrick): This is a question really seeking information. In terms of productivity, a lot of people are saying we should be exporting in southeast Asia, the high-tech fields. How do you think that will impact on the productivity that at some levels is a bit stagnant here?

Mr McCracken: To the extent that we can get that market and produce those goods and services here and sell them abroad, that typically is a plus. That creates jobs in this area. The jobs in the high-tech sector, at least some of them, are highly paid. Some are not; some are low-paid assembly jobs. But certainly it is a much better outcome than no employment at all. It also allows Canada to presumably import more than it would otherwise be able to do, and it's often the imports that we should be keeping our eye on, where your benefits come. That's where you obtain access to goods and services at lower prices than you can produce them domestically and that's where, from a consumer's viewpoint in Canada, the benefit would be arising.

So there's nothing, certainly, wrong about exports. There are certainly some very positive things about it in the sense of allowing us to have a scale of activity in Canada in some of our industries that we would not hope to have if we relied solely on the domestic market. It has been a very fruitful area for the last three or four years. Indeed, it's about the only sector of the Canadian economy that's been functioning well, partly reflecting a more robust US, which is our major market of growth, and then also our continued expansion in some areas.

Ms Bassett: So would you see us pushing further in that area?

Mr McCracken: I think it's a fruitful area to continue. You don't want to spend \$10 to earn a dollar. One has to still pick targets; one has to realize Canada is a small actor in China, for example. We are, however, a respected country in China and we should take advantage

of that by continuing to deliver goods and services and to behave with China as someone who recognized them 15 years before the rest of the world and get that benefit.

Ms Annamarie Castrilli (Downsview): Thank you very much for being here, Mr McCracken. I have two questions.

First, if I could go back on some of the figures you presented in the beginning—we had to write them down very quickly—you indicated that the GDP for Canada was 2.5% in 1995 and you foresaw 1.8% in 1996 and 1.6% in 1997. Is that correct?

Mr McCracken: Yes, that's right. That's in real terms, real growth in those three years.

Ms Castrilli: I see that from the economic statement which the minister presented last October, we have figures for Ontario which are as follows: GDP in 1995, in real terms, would be 2.1%; in 1996, 2.3%; and in 1997, 3.1%. In 1997, it's twice as much as for the rest of Canada. Could you comment on whether Ontario could in fact outstrip the rest of the country by that much?

Mr McCracken: Certainly, it has on other occasions. Typically in our forecasts, given that we have a relatively strong export and a machine and equipment investment component to it, we have a tendency, everything else held constant, to have higher growth rates in Ontario than the rest of the country, usually, on average, by about half a per cent. The reason, I would think, that in 1996 the growth rate would be perhaps less vigorous in the finance forecast is that they're reflecting the known impacts of the fiscal drag of their own actions on that number.

The 1997 number, I suspect if you look at their forecast for Canada, is somewhat more optimistic than ours. I think they were, as I recall, in our Canadian forecast looking at around 2.5%-plus in 1997. We are one of the more pessimistic, at the present time, about the 1997 outlook, partly reflecting again the fiscal actions that have been taken not just by Ontario, but are also expected to be taken by Quebec, and our anticipated further restraint in the February 1996 budget federally.

I would say, though, that if everything else remained the same, Ontario should expect to do slightly better than the rest of the country over the next five or 10 years. The big question mark will be the government's own actions and the degree to which it acts, by collapsing its own spending on goods and services or cutting back on transfers to people, as a special damper on the outlook.

Ms Castrilli: The Treasurer's figures, though, indicate that in 1997 we'd be outperforming the rest of the country two to one.

Mr McCracken: Yes, although keep in mind at 3% growth, which sounds good compared to the numbers we're looking at, that still is probably right at the potential growth of the economy, which means essentially it's just enough to keep the unemployment rate from going up in that year. The two previous years are below potential and are likely to witness rising unemployment. So in that sense it is perhaps nice to have, but I would suggest to you it's by no means remarkable. It's much better to go back and look at periods in which Canada grew 4% and Ontario 6% as the periods that we would like to mimic in the future.

Ms Castrilli: So your conclusion is that even if we were to outperform the country to that extent, it would still be just an average performance.

Mr McCracken: Yes, that's right, and keep in mind if we use a half a per cent rule of thumb, in 1997 our forecast for Ontario would be just a little over 2% instead of the 3.1% that Ontario finance has indicated.

Ms Castrilli: Possibly not terribly realistic.

Mr McCracken: We will be tabling some numbers for the provincial outlook shortly and I'll make sure the committee does get a copy of those for their background.

Ms Castrilli: Let me ask one other quick question. Your submission indicates that the province's employment growth will be reduced by about 30,000 in each of 1996 and 1997. This is on page 4, continuing on to the next page. I wonder if you could comment on how realistic the province's plan to increase employment by 725,000 over the next five years is, given those figures.

Mr McCracken: These are just the direct effects of their programs to date. Certainly, it's going to make it more challenging to reach that number if you start off by going in the opposite direction by a substantial amount early on. That spending and tax cut impact on employment is about 50,000 to 60,000 per year, or cumulative over these five years would be about 200,000 down in terms of employment person-years.

Ms Castrilli: It's a formidable challenge.

Mr McCracken: Well, we haven't seen the rest of the program, I guess. We'll evaluate that when we see it.

Mr Phillips: I just want to pursue the employment thing. You go so fast that I can't keep up.

Mr McCracken: Sorry about that.

Mr Phillips: Or at least I go so slow that I can't keep up. That's what it is.

Mr McCracken: You just want to draw it out, I know.

Mr Phillips: I just want to understand what you're saying on the employment front for Ontario over the next two years and then the next five years. You're not predicting that we are going to see fewer jobs in 1996 and 1997 in Ontario.

Mr McCracken: No, not necessarily. This table 5 refers only to the effect at the margin, the difference between the July-December economic statement and one in which in those actions were not taken.

As a consequence of those actions, and if you've put the tax cut back in, you're looking at something like 30,000 lower employment in 1996 in Ontario, 52,000 lower in 1997 and so on. But that doesn't mean that the economy itself may not still create employment, although one should recognize if your growth is, say, in the order of about 2%, with Canada running about 1.5%, you're not going to be creating jobs very rapidly in that kind of an environment. With any kind of a productivity gain, you'd end up with something in the order of half of 1% increase in employment, so you're looking at maybe 50,000 or 60,000 at the outside in that kind of environment.

Mr Phillips: This is quite an important number for us. Unfortunately, you're the only economist we're going to see this week.

Mr McCracken: Fortunately for you, perhaps. Just on a one-hand view and not on another.

1110

Mr Phillips: Just so I can be clear, the government says that they expect job growth of around 81,000 in 1996, 99,000 in 1997 and then 180,000 a year for the next three years after that. Your number, if I can extrapolate what you've said, for the total job growth in Ontario in 1996 would be what?

Mr McCracken: Probably the best bet is for me just to send you the forecast and lay it out. But just to give you a rough sense of the magnitude, we're looking at about 0.7% growth in employment for the nation in 1997, 1.3% in 1996, so you're looking at about 150,000 jobs nationally; 40% of that would be a rough approximation to the Ontario share, about 60,000.

Mr Phillips: So 60,000 in 1996, and in 1997?

Mr McCracken: Less than that.

Mr Phillips: For the following three years the government's saying 180,000 jobs a year, for 1998, 1999 and 2000. What sort of job growth do we need to see?

Mr McCracken: It depends, but just to give you a rough sizing, if you wanted to have that increased employment as a result of growth without any change in the structure of the economy, then you would need something in the order of another 2% to 3% per year growth in employment. To get that, you would need at least that much more additional economic growth, perhaps more if you had any productivity gains. Now, there are other ways of doing it. One of the interesting areas that may well bear further examination at some point by this committee is the issue of the hours of work that people pursue. Certainly there are ways of creating jobs without increases in output, essentially by job sharing, four-day weeks, extended holidays, sabbaticals, earlier retirement and so and so forth, training programs for people who are currently working. There you can get employment increases, but the problem with those of course is that you're spreading, if you will, the income around; you're not producing additional meat in the pie to be shared across people. For many people that could still be important to do, particularly if they're time-crunched and the choices are being made voluntarily.

Mr Phillips: Now I know why the government wanted you as their witness.

Mr McCracken: I can't believe the government asked for me.

Mr Phillips: He was number one on your list.

Mr McCracken: I thought I was number one on yours, Gerry.

Ms Lankin: I don't know, Mike, but we're the ones who got stuck with you.

Mr McCracken: Maybe that's why I'm the expert. I was on all three lists.

Ms Lankin: Mr McCracken, we really appreciate your input. I want to ask you some questions about your forecast and what the implications might be for the Ontario government. You may know that, unlike previous years, we have not been provided with any data from the Ministry of Finance that takes a look at any medium- to long-term projections on growth, any medium- to long-term projections on revenue streams to the government and expenditure pressures. So we are being asked to give advice without government taking any further action,

other than what they've done in July and November, without knowing what their tax cut will cost, what the picture is today and how that looks in the medium and long term. Then we would be in a position to talk about some options.

I want to ask you some questions that might help give us some of that information. You've spoken about your pessimistic projections on economic growth from 1997 out. The Ontario government had, in its November statement, a projection of growth for 1997 of 3.1%, which was at the midrange of the economic forecasts at that time. They fully admit, and said so yesterday, that the forecasts have in fact been revised down and the midrange of independent economic forecasters now is 2.6%—I'm talking about for Ontario, not for Canada. They have yet to revise their numbers down but will be working on that in light of budget preparations. I am aware that there is a relationship, at least, between economic growth numbers and revenues to government. So I'm interested in knowing whether or not this revision downwards with respect to economic growth in 1997, and I would think beyond, in terms of where the government's numbers are at will have an effect on their revenue stream and what that might be?

Mr McCracken: It will certainly have an effect on their revenue stream, both in real terms from less economic activity, but also, in nominal terms or price terms, we'd probably find there's even less inflation in the system with the slacker economic conditions. At the same time, they have also adjusted on their expenditure side through their actions, and that's presumably where they're trying to get some of their offset to those cuts on the revenue side.

I don't have a separate forecast for the Ontario fiscal position, but looking at the total provincial-local-hospital balances, in spite of the slow growth or maybe even because of the slow growth reflecting increased cuts by government, fiscal positions of the so-called PLH group do improve in our estimation over the next several years as a percentage of GDP. Now, that's in a world in which government expenditure on goods and services continues to decline in growth negatively in 1995, 1996, 1997, reflecting the cuts being made not just in this province but in other provinces in health, education and in the management and administration of government.

In spite of what looks like weak growth, because they are at the centre of it through their fiscal actions, the provincial-local-hospital sector is able to improve its position in spite of that, as are the federal governments who are also contributing to this constraint or restraint by their cutbacks and layoffs of people.

But certainly the revision you would expect to see—I would be surprised if, in the forecast they present to you, you don't see a significantly lower revenue forecast from the Ontario government even before their tax cut, and then of course the tax cut will do more—

Ms Lankin: Here's the problem, Mike: They won't give us a forecast, unlike in every other year.

Mr McCracken: Presumably they're going to do that in the budget, are they not?

Ms Lankin: In the budget I think we will get it, but without the actions that will be taken in the budget—and

he wants our advice on it—what would the status quo at this point produce? Then we can give advice on what changes are needed.

We're seeing a situation with slower than expected economic growth—I'm talking about the government's assumptions now—which will decrease expected revenues, even greater than the July revisions in those assumptions. We're going to see the revenue line grow, but not as quickly as the government had expected, and that will inevitably increase the gap between expenditures, if they are maintained as the July and November statements would suggest—between expected expenditures and expected revenues, and that means an increase in deficit pressures. In order to pay for the tax cut, we're going to have to see additional expenditure cuts if the government is going to maintain its projected deficit numbers.

My problem with providing advice to the minister right now, not having those numbers, is that this is in a bit of a vacuum. But here is the concern I have, and perhaps you can tell me whether there is any validity to it or not.

If this change in scenario is going to drive even further a requirement for expenditure reductions on the part of the government, that will increase the economic drag effect we will see in the immediate term. The Common Sense Revolution said 0.4% or 0.5%; your estimate is that with the additional measures in November, it's up to 0.6%. We expect more to come in the budget, and if there's an additional requirement, that starts to become a very significant factor.

The minister yesterday said he's not sure of his timing of the tax cut, and even when he brings that in, in year 1 and year 2, there's not likely to be any stimulus effect from that, and he hasn't built in any projections for stimulus effect in year 3 or out.

1120

I'm worried about an actual decline into a recession, particularly with speculation about the United States in 1997 or 1998. Could you comment on, is there any validity to those concerns? What kind of things should this committee be thinking about to try and advise the minister to counteract that?

Mr McCracken: You've asked me two separate questions, so let me, at least in my mind, separate them.

One is, if the tax cut that has been promised or suggested, 30% of something, is matched by further expenditure cuts in the budget, what's the effect on the economy of that kind of move, that perhaps being predicated on or forced by some targeting on an overall deficit reduction? That would not be what we show in this thing here. You'd have to add the expenditure cuts that go along with that. If you fully funded a tax cut by matching expenditure cuts, depending on how you did it, you could well be back to the same place you were with the expenditure cuts alone in terms of employment loss or even more. If you cut taxes for people who save it and don't create much economic activity from their own actions, and lay off public servants or cut back on welfare payments, which has a direct adverse effect on consumption, you could do worse. You could worsen net, even though your fiscal balance is unchanged.

One would presume that the people at Finance understand that, and if they're going to be trying to create jobs,

they'll be trying to do it with a twist towards much, but it'll be a much smaller net number if there are substantial expenditure cuts.

The second question is, if I'm optimistic with an economy with rising unemployment, moving nationally up back towards 10% with growth below potential, what's the story in Ontario if on top of that we're doing further cuts? The answer is, things will get worse here more quickly and indeed will also have national impacts.

The one message you all ought to remind yourselves of on occasion is that you are a significantly large component of the Canadian economy and cuts here have adverse effects not just on Ontario and not just on the direct effect on Canada of Ontario's content, but they also have effects directly on all the other provinces in the country because they sell goods and services to you and that will drag down their activity. So when we collectively look at it together, the total job loss is much larger than the job losses taking place in Ontario.

You may say, "That's their problem," but indeed you should recognize as they cut that they too will have a spillover effect back on to Ontario, and your balance sheet, if you will, or your job situation will be worsened by their activities at the same time.

The Chair: Thank you very much, Mr McCracken, for the detail and your answering of the questions. We appreciate that a great deal.

ONTARIO ARTS COUNCIL

The Chair: The next group is the Ontario Arts Council: Paul Hoffert, chair, and Ms Setterfield, executive director. I believe they have a video to show us.

Mr Paul Hoffert: I have a few opening comments. Our plan is to close with the video, Mr Chairman, if it meets your pleasure.

The Chair: Wonderful. Proceed, please.

Mr Hoffert: In 1963, when the Ontario Arts Council was formed, we were given a clear mandate, and that mandate has not changed; we were given some objectives that were quite clear, and those objectives haven't changed. But I'm here in my introductory remarks to assure you that the answers to the question of how we fulfil our mandate and objectives have changed significantly.

I was thinking on the way down here of the apocryphal story of Albert Einstein, who was teaching a graduate class. When they had their exam, one of the students turned to him and said, "Professor Einstein, I don't want to be rude, but the questions on this exam are exactly the same as the questions on last year's exam"—something members of this committee probably experience if you've been on the committee for any amount of time. Supposedly, Dr Einstein looked at the student and said, "Ah, yes, the questions are the same, but this year the answers are different."

If there's a bit of a theme we bring, it's that the answers at the Ontario Arts Council are significantly different, that we are reacting to the changes in society and the economy and all the other structures around us in a way that we are certainly becoming much leaner, but we hope just as or more reasonable and not meaner than

we were before. I'll just make two brief comments, and then we can move on.

The first one is that in my view, the common wisdom that some people talk to me about, saying, "How can we justify culture when we don't have enough money for education and we don't have enough money for health care?" is absolute folly. Talking about anything like budget/deficit reduction and equating assistance to the cultural industries and the arts in the same breath I'm sure makes no sense to you folks who look at the budget. The numbers are so vastly different that one could cut all assistance to the arts in Ontario and have absolutely no effect on the budget number or the deficit in terms of the number that would appear in a newspaper. It would be out some decimal places.

Given that there has been general consensus that support for the arts and the cultural sector has definite linkage to actual prosperity in Ontario, to job creation—the number that's generally bandied about is about \$11 billion of activity in the sector—and if you look at what the public's contribution is and look over the years to the linkage of how the public's contribution has risen and how the sector has risen disproportionately high, and if you look at the recession we've been through and the fact that cultural industries are among the only industries that have thrived and are contributing more than ever, I believe there's a very good reason to suggest that a reasonable approach to the finances would not be to try to equate these.

If you took, for example, education, health care or any of the larger ministries, if one wanted to do some simple arithmetic and take less than one tenth of one per cent of the budgets of even a few of those ministries, numbers that in terms of the broad brush we're using nowadays are essentially meaningless, one would more than double the assistance if one moved those tiny percentages over to the cultural sector and the arts.

If one then looked at what the stimulus effect of that would be in terms of job creation, increase to the economic health of Ontario, tourism and the rest of it—and I don't need to go into those figures; I'm sure you have them—I think one would make a very good case for vastly increased support to the cultural sector.

Last, I just mention that the trend nowadays, having looked at the last 50 or 60 years of economic activity in North America, is for analysts to understand that new jobs and new wealth are created more and more by small businesses, and not by either governments or large businesses. Having spent most of my life as an independent entrepreneur, as a musician, as a composer, I can assure you that the cultural sector and the artists of Ontario are the prototypical free-enterprise entrepreneurs, each of us, generally speaking, never getting an MBA, generally speaking never taking a business course but having to come through the school of hard knocks, which is that there's still rent to pay at the end of the month, there's still food to be put on the table, and if you don't figure out some way to do it, your family can't survive. As a matter of interest, until I was about 50 years old I didn't have a steady job, ever.

So I put to you that the cultural sector and the Ontario Arts Council are in fact in an excellent position to help

the economy of Ontario, that it is an excellent value for the people of Ontario, and I hope that the finance committee would take this into account and make appropriate recommendations to the government. Thank you.

I'd like to pass this on now to the executive director of the Ontario Arts Council, Gwenlyn Setterfield.

1130

Mrs Gwenlyn Setterfield: Good morning, Mr Chair, members of the committee. I have just a couple of points further to make beyond what our chair has said.

The funding to the Ontario Arts Council now represents less than \$2.80 per head, per year in Ontario. It is part of an intricate fabric of support in the arts. For the most part, organizations generate about three quarters of their own income and the rest of it comes from public support of one kind or another. This is an intricate web of funding. When the public support begins to fall away, the private support equally begins to fall away. Sponsors, private donors say: "There isn't any stability here. I'll go and put my money somewhere else."

The Conference Board of Canada has acknowledged that the corporate sector is experiencing a terrific increase, about 10% in any few-month period, of demands on their money. They need to know that there are stable and exciting things happening in the arts if they're going to continue to support the arts, so the one message that we are particularly concerned that this committee carry to the Treasurer of Ontario is the need now for some stable funding for the arts.

The arts council has lost almost 30% of its funding. This is almost twice as much as the average loss to the Ministry of Culture. We feel that we have taken a terrific hit. We have made our contribution to the deficit cutting in Ontario and what our organizations and our artists now need is stability. We need to be able to go to these organizations and say: "This is it. Now you can plan for the next two or three years. You can start to go to your donors, to your private sector. You can make the plans for your seasons that will bring more people into the seats in your communities." But they can't do that with this continuing free fall which they are experiencing on all sides.

Those are the points we would like to make, Mr Chairman. Because we are an arts council, we always bring you a little entertainment in the way of a video. We'd like to show that and then have time for questions.

This represents some of the kinds of things we fund at the arts council.

Video presentation.

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The Chair: Thank you very much. If we could move to questions, we have 15 minutes and we'll take five minutes for each party. Ms Castrilli.

Ms Castrilli: Mr Hoffert and Ms Setterfield, thank you for coming in. I think it's a given, and it should be a given in this committee and elsewhere, that the arts contribute greatly to our quality of life, so we'll simply take that as a given.

I'd like to ask you to speak briefly for the record—you have given us a great deal of material—on the impact on jobs and economic growth in Ontario of the arts and the Ontario Arts Council and its activities.

Mrs Setterfield: The estimate, the latest figures that we have—we will have better ones unfortunately in a month from now—are about 260,000 jobs in the arts and culture sector in Ontario. As you understand, the sector now is a continuum from the not-for-profit sector right through to the commercial end and the artists move back and forth among those forms of work. They may work in the opera company and they may work in Phantom, they may work in a commercial way and then go back to the not-for-profit theatre, for example. So one thing is intimately associated with the other. Indeed, the commercial producers point out that we cannot have a viable commercial sector, film sector, theatre sector and so on without the development and the fundamental base, the platform of the not-for-profit sector, with which the Ontario Arts Council deals primarily.

For example, I could say that 126 performing arts organizations that we deal with in Ontario had revenues last year of over \$163 million, and close to \$7 of every \$10 was generated by those companies themselves. The chair of one of the major arts organizations in this city, a very prominent businessman here, estimates that the leverage is \$1 in \$8—one public dollar, and he generates another \$8 out of his company; that's the National Ballet company—in tourism and other economic benefit to the community.

We fund, I should say, about 1,900 individual artists and close to 1,000 organizations across the province. That represents 360 different communities. So you have a little festival in Hearst; you have three small festivals in Guelph, which they estimate in Guelph brings \$1 million into the area during the summer season.

Ms Castrilli: All of this is in partnership with the private sector?

Mrs Setterfield: Absolutely every group we fund is in that partnership.

Mr Hoffert: If I might just add a small, little anecdote—there are a lot of numbers that deal with the positive effects of the arts and culture—but we saw the Hamilton Symphony fold its wings, so to speak, just a short while ago. The first thing that starts happening, of course, is that the Ontario Arts Council gets phone calls and we find that the \$150,000 a year they were paying in rent to Hamilton Place is now going to have to be absorbed by the taxpayers because they no longer have the Hamilton Symphony; we see that the GST and the PST that are charged on the millions of dollars of tickets that this organization sold will be lost to the public. If one looks at the possible downsides, not just the upsides, I think one can see a really close linkage of the activity of these organizations either way.

Ms Castrilli: I gather from your presentation that the one recommendation you would make is that there be stable funding. That's the crux of your presentation. What does that mean, precisely? Are you saying a freeze? Are you saying multi-year financing?

Mr Hoffert: I think we're saying multi-year financing. If any of you would actually look into the operation of especially the performing arts organizations like an opera company or a ballet or a theatre, you'd realize that they book the actors and plan their productions two or three years in advance. In the case of opera, sometimes you have to book a singer four or five years in advance. So

financial commitments are being made greatly in advance of the yearly budgets. This is very, very stressful.

In the current situation we have, where there was a significant cut, for example, the organizations did not have the option in most cases to say, "We will cancel the performances for the rest of the year because we can't afford them," because they still would have had to pay their singers, they still had contractual obligations to others and of course audiences had bought subscription tickets and that money had all gone in. So there is a lot less flexibility than you have in other types of organizations. For this reason it's very important, and I guess the message Gwenlyn was giving you is that stability is very important.

Of course, our view is that funding would hopefully increase. Others would have whatever their view is. But in any case the most important contribution, I believe, to the financial stability of these organizations is knowing what a number would be more than a few months in advance of when they get it, because they can't do corporate fund-raising, they can't plan a production, they can't do any of these things. The National Ballet had its new production of the *Nutcracker* all ready to go this season. They couldn't cancel it just because we passed through some budget cuts to them.

Ms Lankin: I'm fearful that your message may not be listened to or be well received by some members of the government, and I understand in a sense the struggle they are going through, trying to determine how to achieve the fiscal agenda they have set for themselves.

One of the things that disturbs me is that some of the newly elected members seem to have a sense that no one has done anything in the last few years to try and deal with the fiscal circumstance or that organizations haven't tried to become more efficient or that they haven't absorbed any kind of reduction in spending.

We often hear, if anyone raises concerns about the government agenda, that they're simply defending the status quo. I'll refer to Mr Hudak's comments yesterday, when he said that he hoped that people who came forward before this committee, if they disagreed with any of the directions that the Finance minister was going, would put forward other ideas and solutions for change. But he said, "But again, what I fear is a repeat of what I saw in the Bill 26 hearings, and that is basically a pitched defence of the status quo."

I sat through all of the Bill 26 hearings and I didn't hear that at all. I heard many groups say they recognized the need for change and talk about how they felt that change should be brought about, what they favoured in the government's plans and what they disagreed with. But I fear that you may be viewed as pitching the status quo and I think it's important for you to explain what in fact you have been doing over the last couple of years—the whole arts community, in fact, and cultural community and cultural funding, the kind of changes in funding levels that you have already absorbed and the fact that there have been attempts to reduce spending in that area and that you've already absorbed a lot of it.

Mrs Setterfield: I think since about the early 1980s most of the organizations that we have funded have been trimming and slimming and reworking their way of dealing with their communities and on hiring their artists.

The Toronto Dance Theatre, for example, which is internationally renowned and is at the moment on a tour in California, has severely cut back the number of weeks that they hires their dancers for and is being much more concentrated about when they do their rehearsal and when they do their planning for their season and so on. They are now at the rock bottom. If they cut back any more, they won't have a dance company, because you understand that dancers must dance every day or they aren't going to be dancers any more. This is a company of the quality that can go to New York and self-present and sell out a series, which they do every year.

This has been constant throughout the sector. We have, for example, small theatre groups in Toronto that got together and formed an organization call STAF, the Small Theatre Administration Facility. This is an organization that provides marketing, publicity, business services of all kinds to a collective group of theatre companies so that they're not all paying for those administrative overheads. The Ontario Arts Council helps them out with that sort of thing. The dance community has done the same thing for themselves.

I heard one of the chairs of one of the organizations say, "The arts have been the best and the most outstanding best-in-time deliverers of service in this province." Every night they get the curtain up at 8 o'clock and they do it with decreasing overheads all the time. They are doing smaller plays, they are doing fewer weeks, they are doing less rehearsal and so on. You'll remember a couple of years ago the Toronto Symphony members took a cut in salary. This has been the same in all of the orchestras around Ontario, that the musicians have taken cuts, through less weeks that they've been working. The galleries have been cutting the number of shows that they have, and this is of course having a direct impact on the individual artist.

The Chair: Thank you. That was a long answer.

Ms Lankin: The other thing that I wanted to ask you about is the economic impact of the arts, because I think the government does have to make some difficult choices. They're going to have to come down to looking at what the spinoff benefit back into the economy is. Cultural tourism, the links with telecommunications, all of the work that was done in the culture sector strategy—can you comment on whether that's moving forward and the sort of payback to the provincial coffers and the provincial economy in terms of jobs?

Mrs Setterfield: I'm not sure that I understand the question.

Ms Lankin: It was too quick; that's why.

1150

Mr Hoffert: I'll take a quick crack at it. First of all, in terms of technology, the Ontario Arts Council is very fortunate in that we started our technological rebuilding, if you will, before we received the major cuts in the last year. So we have the infrastructure within the OAC of a brand-new computer system that just came on line some few months ago, which was funded out of some previous budgets that we had.

Just for the record, the Ontario Arts Council board has given instructions to the staff to make certain that although we've increased the scope of our activity signifi-

cantly over the last three or four years—our funding level for next year will be approximately the same as the funding we received in 1988—our administrative costs will be lower, meaning that we will be a smaller organization with fewer internal resources administering more services than we did at that point in time.

Ms Bassett: Thank you very much for your presentation, Mr Hoffert and Ms Setterfield. Certainly our government appreciates the role of the arts in the community and to all our lives. It's enormously important. The question is, as Ms Lankin pointed out, that we were elected on a mandate to cut spending and to reduce the deficit. That is our mandate, so really I couldn't say that there's going to be a lot of money; there is not. The question facing us is not that we don't value the arts—we do—but how to get the money.

I'm getting to my question, but I want to say first of all that the Finance minister, Ernie Eves, in his economic statement said that in answer to many requests he's going to allow crown foundation status for the Ontario Arts Council and various artistic organizations, which will loosen up some money that would replace funding that you maybe need.

Lieutenant Governor Hal Jackman, whom we saw on the tape—you didn't have time to show it, but the reason for those grants that he gave was to honour the six organizations, I believe—and correct me if I'm wrong—which increased the balance between the donations from business and decreased their reliance on the public purse.

My question to you is, now that people are getting in and recognizing the fiscal problems, what are you doing or what can we do to help you more, without actually giving you money, that would bring in funding that you need? I mean, imaginative steps down the way. You said into the tape too, Mr Hoffert, that artists can do anything, so maybe you can think of something.

Mr Hoffert: The two issues on the table, which I won't belabour, are stable funding, and certainly crown corporation status for a foundation in the arts would be helpful. We have a lot of creative ideas within the OAC and within our staff and within our board that we are beginning to discuss with the government ministry that are outside the scope of the current structure of the OAC. Just as we are totally restructuring our own organization, we believe that if there's to be real efficiency, it's time to take a good look at the whole picture.

Ms Bassett: Can you think of other steps though that we could be doing, with you maybe or whatever, or through business where we could lend influence, that might stimulate some money?

Mr Hoffert: For example, we're taking steps to do cooperative ventures with the private sector. A good example is the Bravo television network, which is a cultural, arts-oriented network. We're currently involved in trying to do a project with them which would bring \$600,000 a year additional funding, which is part of their promise of performance to the CRTC, to make videos for artists and to have the Ontario Arts Council work with them and do it. Of course, we're coming up against corporate culture clashes between the way the arts, the not-for-profit sector has worked and the way the for-profit sector has worked, but we are committed to make it work.

Mrs Setterfield: We had recently written to the Premier to ask him that when there are foreign trips in terms of selling Canadian business to foreign markets, we would hope that in future representatives of the cultural sector would be represented, because our artists are selling abroad, all over the world. We would get a significant boost in those markets if it had the stamp and the help of the Ontario government through the Premier and his ministers when they go abroad. That is an issue, and there's also the support for the new tax reform issues in Ottawa that would be very helpful to our sector.

Mr Jim Brown (Scarborough West): The presentation material is pretty nice and probably cost a few bucks. It ties in with the question on your financial statements. It seems to me you got about \$43 million on the 1994 statements, and you take it in here and you give it out there, but the difference is about \$6.5 million. What do you for the \$6.5 million? Because I could cut those cheques cheaper than you could.

Mr Hoffert: That's a two-parter; I'll take the first part. If we decided at the Ontario Arts Council to administer the flow-through of grants as cheaply as possible, we could do it much more efficiently. In fact, the government could do it yourselves, and some have suggested that the government should. If we just cut cheques, say, to the six largest or five largest organizations in Ontario, without much adjudication, it would be very inexpensive to administer.

What we have been doing more of is really getting out to remote communities, servicing them, making sure that all the people of Ontario get the mandate fulfilled. I must tell you that there is a pricetag on doing that. Last year, we gave out 2,000 grants to organizations across Ontario in 350 communities and about 1,000 grants to individual artists. Each one of those was adjudicated, by a peer group that came to the Ontario Arts Council, and had to go through the process etc. If one looks at relative efficiency, we were, I believe, last year probably twice as efficient as the Canada council—I don't know if that's saying much—in terms of number of grants adjudicated and the cost of doing it. But there is a cost involved.

Mrs Setterfield: The other thing that we do besides grants is a great deal of service. We present, for example, two major trade shows, one for the English sector and one for the French sector. They generate over \$2 million worth of business for the individual artists and groups in Ontario. We present those trade shows. This brings together the buyers and the sellers, so to speak. We do a tremendous number of professional development workshops for organizations. We do workshops for groups to show them how to do marketing, how to budget and so on. That's where part of that cost goes.

The Chair: Thank you very much to the arts council for appearing before us and expressing your views.

We have a little bit of housekeeping to do, I believe. We tabled the subcommittee minutes of February 1 to today at noon.

Mrs Marland: Mr Chairman, it was my motion yesterday to move the subcommittee report with an amendment and it was my motion to table that until noon today, after which time I could have contacted Mr Rob Sampson, who was the member of the subcommittee who

made the agreement on this report. I'm happy to say that I was able to speak personally last night to Mr Sampson. It is true, as Ms Lankin said, that Mr Sampson is perfectly happy with the subcommittee report as it is written and circulated. Therefore, I am withdrawing my motion of the amendment and I will move the subcommittee report as printed and circulated.

The Chair: Shall it carry? Thank you.

Mr Spina: I just want to clarify something on that report, if I may. Is that in order?

The Chair: It's been moved and carried.

Interjections.

Mr Spina: It's not going to change the motion, but I just need some clarification. I understand that under travel the committee is going to Thunder Bay, the Sault, London and Ottawa, and I respect the fact that you're the one making the decision. I was just going to—

The Chair: What decision?

Mr Spina: If I understand it correctly, the Chair has the authority to schedule and make the flight arrangements based on 3(b).

The Chair: Flight or travel.

Mr Spina: So all I'm suggesting is the order. You might consider London first and then to travel across northern Ontario, perhaps ending in Ottawa, as a good, efficient route.

The Chair: We'll consider the airline and the bus schedules before we make that decision.

Mr Phillips: On another matter, earlier today, when the CFIB was in, they indicated there was an estimate on the cost of the elimination of the employer health tax provided by the Ministry of Finance. I wonder if we can get a copy of that. The only reason I raise it is because the promise that was in the minister's remarks yesterday is a different promise than was in the Common Sense Revolution. The estimate that I think the ministry provided was for the elimination of the employer health tax on businesses with payroll of \$400,000 or less, and the minister said yesterday the promise was to eliminate the employer health tax on the first \$400,000 of payroll. The estimate, I think, that the CFIB had was for the old promise. I wonder if we can request the minister to give us an updated number on what the promise costs?

The Chair: We can make that request.

Mrs Marland: In response to the point that Mr Phillips has raised now, we did hear from Catherine Swift that the figures that they were using this morning were the figures that were given to them by the government a year ago. So if Mr Phillips is looking for newer figures, you're referring to the presentation of CFIB this morning, and in that context they clarified the source of their figures. So if you're asking for new figures, we can't make that commitment to give you new figures.

Mr Phillips: No, no, if I might just clarify it, this morning I think the CFIB said they had the \$400-million figure. That was on the earlier commitment of eliminating it on payrolls of \$400,000. I'm saying we request the Ministry of Finance to update it to give us the new estimate, because they gave the old estimate on a different set of numbers. So I'm just saying that the committee simply send a letter to the Minister of Finance or to the ministry saying, "Could you give us an updated cost of the commitment that you outlined here yesterday,"

because it is no longer \$400 million, it is some figure above the \$400 million.

Mrs Marland: Didn't you ask Ernie Eves, the minister, yesterday for that figure?

Mr Phillips: Yes, but I just assumed that the committee might like to see that number, because the—

Mrs Marland: No, but didn't you ask him yesterday, Gerry, and the minister said that he—

Mr Phillips: I'm not sure I did, no. I was talking about the personal income tax.

Mr Kwinter: I just wanted to make sure everybody understood what the issue was. The commitment under the Common Sense Revolution said that all businesses with a payroll of \$400,000 or less would get this tax relief. What has now been said is that all businesses would get tax relief on their first \$400,000, which means that there's a much, much larger pool of companies that are going to benefit. We just want to know what that figure is.

Mr Gary Carr (Oakville South): I was going to get a clarification of whether in fact the minister said that and if it's in Hansard or whatever, but there is definitely a difference on that. We may have interpreted wrongly, but we should ask for clarification from the minister, because it is different from what the promise was. But I think you'll find that either he made a mistake or we didn't hear him correctly. But we certainly should have clarification of that.

Mr Phillips: It was in his text. He said, "We will eliminate the first \$400,000 of payroll from the employer health tax." I'm quite sure that is the intention of the government, not, "We will eliminate the employer health tax on companies with payrolls of \$400,000 or less." It is quite a different promise. All I'm saying is that if we're going to be helpful to CFIB—that was, I think, their number one recommendation—it would be helpful for the committee to have some idea of the cost of that.

The Chair: Could we ask the researcher to see if there's some clarification of that statement and get back to the committee?

Mr Phillips: And the cost. That would be great.

Interjection.

Mr Phillips: Oh, I'm not questioning the commitment; I'm just wondering about the cost of it.

Ms Lankin: It's just different than what the CSR said, what he said yesterday.

The Chair: Given the time and the full schedule that we have for this afternoon, I would ask that we reconvene on time, at 1:30. The committee now stands adjourned for lunch.

The committee recessed from 1205 to 1331.

ASSOCIATION OF DISTRICT HEALTH COUNCILS OF ONTARIO

The Chair: We're pleased to welcome the Association of District Health Councils of Ontario; Susan Brown, chair. Perhaps you could identify yourselves for the Hansard record. You have half an hour. You may use that time as you wish. We'd appreciate some questions.

Ms Susan Brown: I'd like to introduce to you Alan Mathany, vice-chair of the Association of District Health Councils, and Gord Gunning, the executive director.

We appreciate the opportunity to come and talk to you about some of our ideas around savings that could be achieved in a health system restructuring. I understand that you have received the paper that we prepared for today. I'm not going to speak to it in total, but what I will do is talk a little bit about the nine recommendations that we are bringing forward in terms of achieving efficiencies in the health care system. Those recommendations that I would speak to start on page 7.

A little bit about district health councils: District health councils have been serving Ontario communities and the Ministry of Health in Ontario for the past 20 years. We now have all six planning districts totally covered, with 33 district health councils throughout Ontario. The most recent one was the Huron-Perth District Health Council, which was enacted, I believe, in 1993.

District health councils have provided a planning perspective on local communities for the past 20 years. At one point, district health councils were totally involved in new dollar allotments or allocation recommendations to communities, but that's a role that's no longer viable in the health care environment.

In the last five years district health councils, as you know, have been participators or the lead facilitators in various communities for hospital or health service restructuring. The Metro Toronto hospital restructuring report was received earlier in this calendar year. Presently one of the other large ones that is being undertaken is in Hamilton-Wentworth, which is actually quite a comprehensive restructuring looking at health care in an integrated way.

That brings me to our first recommendation in terms of achieving cost efficiencies in the health care system. Development of an integrated health delivery system would control costs and improve services, and improve access actually, through the development of locally defined integrated health systems with both horizontally and vertically integrated networks. "Horizontal" means that across the community the variety of services that are necessary for people to access can be accessed. "Vertical," as we define it, is moving through the levels of care: primary—being the most common—secondary, tertiary and quaternary care.

In an integrated health delivery system, each system would recommend allocation or reallocation of health care resources for its community. We recommend that the government consider developing a pilot project or a trial project basis in selected communities that have done a lot of preparatory work in integration.

One of the other things that we believe will achieve cost savings is the establishment of a formalized link between local planning and implementation. Over the past six or seven years, district health councils have worked very hard developing new configurations for their community for the delivery of health services. However, without implementation one does not receive any of the cost benefits that they had prescribed.

In doing this, of course, the roles of the ministry, the Health Services Restructuring Commission, district health councils, hospitals and other stakeholders must be clearly articulated before the commission is appointed, to ensure that implementation is based on a local perspective for

integrated system care. We were pleased to see one of the amendments to Bill 26 which recommended that the health services commission have regard for plans that had been developed locally by the DHCs.

We also recommend that we need a speedy implementation of these restructuring processes, with a managed and balanced approach to change. Outcomes of hospital restructuring projects that demonstrate clear evidence of both improved service and significant cost savings should be expeditiously implemented to ensure that their communities have continued access to needed services.

Implementation should have a managed and balanced approach to change to avoid emphasis on one aspect of the health service delivery system, ie, hospital savings. Cost savings that are found within the hospital system should have some corresponding reinvestment into the community, which brings us to item 4.

We believe that in providing incentives for achieving efficiencies within the system we'll be able to ensure a managed and a balanced approach to change. The ministry should develop a strategy to provide incentives for achieving cost savings through local restructuring. In some sense, that's already happening. I'm not sure that you could call it incentives in some communities, but communities do have targets which they are able to work towards.

One of the significant recommendations that we are making is that at least 50% of the savings that are achieved through restructuring in a community should be redirected back into health service system delivery in that community. Perhaps a vehicle for doing that would be for the minister to establish something called a healthy community fund—or a name that might fit it in a better way; it's just one we came up with—that would be reinjected back into the community for capital investment or program development, to address service gaps and increase efficiency in the years following implementation of a restructured system locally. The ministry should establish policies to encourage innovation for financing capital or operating costs through joint ventures between the public and private sector.

We support the Ministry of Health reorganization to reflect integration as a corporate strategy. We support and would ask for a more timely establishment of planning benchmarks and provision of current accurate data through integrated health information systems. Benchmarks for planning have long been a call of DHCs and there have been a number of positive steps in the recent past. But we support the support to different data collection agencies, health intelligence units, ICES—the Institute for Clinical Evaluative Sciences—and other planning and research organizations through established benchmarks for the province through which we can plan for an effective and efficient health service delivery system.

The establishment of a multi-year stabilization fund for planning and timely annual core budget approvals: The ministry should establish a stabilized planning fund to district health councils that provides at least a three-year planning cycle, beginning in the 1996-97 fiscal year. In the recent past, hospitals were given an opportunity to have a planning cycle, which has helped them considerably to get a hold of their budget concerns. It allows for

projects and programs of the district health councils to continue through to the end of their mandate rather than to the end of their fiscal year, where things may or may not be completed.

1340

The development of new models of health care to improve utilization management: New models for health care facilities and physician payment plans developed through local restructuring activities to improve utilization management should receive ministry support as long as they are consistent with policy frameworks and fiscal goals.

One of the hallmarks of district health councils in this province is voluntary participation. District health councils, as you know, are comprised of a voluntary board. District health councils support the Ministry of Health's initiative to establish 43 volunteer-based community care and access centres across Ontario as a means to enhance coordination of long-term-care services. District health councils support the government's initiative to review its agencies, boards and commissions in the overall strategy to achieve cost savings.

We have fleshed out these recommendations in a little more detail throughout the rest of the paper, but perhaps just in summary, before we have an opportunity for questions, the key points that we would hope we've been able to impress upon you in this presentation are the development of an integrated health delivery system, providing incentives for achieving efficiencies, the establishment of planning benchmarks and the establishment of multi-year stabilization funding for district health councils.

We'd be pleased to answer questions, if there are any.

Ms Lankin: Thank you very much. May I say that we also share your pleasure at getting that one small, minor amendment that said the restructuring commission shall have at least regard to district health council reports. Mr Silipo and I spent about 45 minutes attempting to wrest that amendment out of the government. It wasn't what we had originally proposed, it wasn't as strong as that, but we were pleased with that. I don't want to revisit all the Bill 26 issues; there are a lot of things that I'm not pleased about in terms of what happened there.

I think in general the proposals that you put forward with respect to health care restructuring are well thought out. They're ones that are generally supported in the health care community and they're, to me, quite fundamental to ensuring that health care restructuring take place in a framework that ensures that the reinvestment meets community needs and that it's actually community-driven, needs-driven, as opposed to—and I've gotten in trouble for this analogy before—some of the higher-tech, louder voices that seem to get money when they ask for it. Some of the community services that are very necessary to ensure a seamless system for delivery of health care services don't get the money and you see gaps in the system.

However, in looking at the budget overall, outside of health, one of the things that I think is important is for the government to actually commit itself to a framework of the determinants of health. This government hasn't done that yet. They haven't taken on that framework or made any commitment to looking at their budgeting

process and their priorities in terms of whatever government expenditures are left on the table within that framework of determinants of health. I was wondering if you could talk about that. It might be helpful for committee members to get your insight on what that would mean in terms of areas of government expenditure that are important to place a priority on, even with a shrinking pie, in order to look at development of healthy populations. It's not just the health care system, we know that. Could you comment on that?

Mr Alan Mathany: I think one of the things we would like to see is a greater emphasis placed on the preventative aspect of health. In the last couple of years there have been a number of initiatives—if you look at the diabetes strategy, for example, certainly an excellent way to approach health care—because if you do in fact prevent illness, then the longer-term costs are less.

Ms Lankin: I remember that strategy.

Ms Brown: I guess, building on Alan's comments, one of the things that is important is that in being healthier, achieving wellbeing, it transcends sort of all the categories that we put together to fund that kind of existence.

But I just had an image of a documentary I saw some time ago around achieving rural health care initiatives in the southern United States. They were talking about funding a large program around certain kinds of nutritional supplements and they were going to take this out to the elderly in this rural southern community, but there were some things you needed in order to take these supplements. You needed a can opener and you needed running water, and there was something else which I've forgotten, and they found that 80% of the people who would benefit from this nutritional supplement would not be able to utilize it because they didn't have any of the other things.

I guess that just strikes for me that there needs to be a balance in housing, in environment, in transportation. Many people, especially in outlying areas, who may need health services may not be able to access them because they do not have their own transportation and public transportation may or may not reach the area to which they need to go. That maybe is a brief summary of some of the different areas.

Ms Lankin: My understanding certainly of the position the association has traditionally taken is that it accords very strongly with reports from the Premier's Council on determinants of health and that framework. The message I take from that is that as government looks at reducing the pie overall, the decisions within that are quite critical in terms of support for housing, for environmental measures, for better beginnings for kids, a real focus on kids and the health of kids, so a number of those issues. I think it's important that we have an opportunity to provide that advice to the Finance minister as he's looking across his various colleagues' plans. If they act independently, while you might protect the health care budget, the stresses are going to be greater on that because you're treating more illnesses because you haven't put the money into the prevention end up front or looked at the things that actually determine population health status, many of which aren't contained in the health care system. Is that something the association would still agree with and would urge?

Ms Brown: I think so, yes. When you're looking at planning, if you're taking a piece out of the middle, it may be a big piece and it may be a big part of the pie, but if you're taking a piece out of that so that your system's collapsing in a bit and you're not spreading anything out in the sort of fringe areas that could provide support and care, then the whole thing will collapse. In an integrated system, you need to be able to have that continuity of moving through the system, the appropriate care at the appropriate place at the appropriate time, and you should achieve cost savings from that.

Mr Carr: I'm sorry I missed the video presentation but I was reading through it and have been following the work of the DHCs over many years. I'm from the Halton region. You may be familiar with some of the folks there.

My question is on the whole issue of the restructuring and the cutting of the costs. As you know, district health councils have taken a look at some of the restructuring that needed to take place in the hospital fields. The tough part is, when the tough decisions had to be made of closings, people from those communities found it very, very tough to recommend that their local hospital close.

Keeping that in mind, as we restructure, most of the cuts in health care are going to come out of the hospital field, and they're significant. One of the worries of the public is that when we do the cuts, if we take the close to a billion dollars out of the hospital sector, we can't restructure and have the same amount of services.

Being perfectly honest with this, taking that much money out, if we restructure, do you think we are going to have the hospitals, the health care services that we need in this province over the next few years? I'll balance this off Saskatchewan, which closed 30-odd hospitals. Can we take that much money out of the health care system and not see the services suffer? I know you'll answer this anyway, but could you be really honest in your assessment of some of the difficulties the government may have doing this?

1350

Mr Mathany: I was very involved in our hospital restructuring plan in Hastings-Prince Edward. I think at one point we had 10 busloads of people come to the Legislature to speak to you and also we had 1,500 people show up at one consultation. So I think the DHCs in general have done an excellent job of going to the communities and finding out how things should be restructured.

As for when you actually get to the downsizing or the taking away of beds, for example, I think it's been quoted that there have been enough beds closed to actually close 30-some hospitals, yet not one has been closed.

I certainly think in our area the DHC, and those in other areas across the province, have identified where the savings could be, have worked very hard at trying to reorganize and get people to think in terms of better health care but also realizing that the dollars just aren't there to maintain the system that we had. It is a very difficult thing. In terms of our hospital restructuring, I think we're still recommending that four hospitals remain open and I still think that's true, but where we're going to see savings is how they're going to share in those services, how they're going to look at things like food

services and medical supplies etc and share, and there's going to be phenomenal savings.

The biggest problem has been getting them to work together and get together and sit down and say, "We are going to share." I think if we can have some structure in place that allows DHCs to maybe have more teeth or at least get those plans implemented, it will go a long way to saving significant dollars. That's been the problem, getting the plans implemented. We're hopefully going to see this new commission have some authority or power to be able to enact some of those plans, and I think then you'll see the savings.

Mr Carr: My feeling, and I've always said this, is district health councils unfortunately carry the bad news. If there are any cuts, they go out and do it. The last opening was at our hospital, and the previous Premier came out, the politicians of all political stripes are there to cut the ribbons, but when they cut, it's the DHCs.

Ms Lankin: That's not true. I went to Burk's Falls when they closed that hospital.

Mr Carr: Yes, some of them, but on an average basis, unfortunately, you got to do a lot of the tough jobs. The commissioner, the person who shuts the hospital, will be the most hated person. It was my feeling that you had to have somebody like that to do it, that as good as the DHCs were, when push came to shove, they wouldn't make the final decision to say, "We're going to close Women's College," or whatever.

Ms Bassett: Don't say that.

Mr Carr: It's on the list. Sorry. I looked and I just thought, Women's College. You see how difficult it is. As a matter of fact, my wife said, "Yes, I know hospitals have to close, but not Women's College." So she's supportive as well.

Were you in favour of having a commission do this, then, closings?

Ms Brown: I think there needs to be some authority or some lever that says the hospital will close, but I think one of the other things if this is to be successful is that you need strong leadership at the local level. If you have a strong commissioner at the provincial level but no agents at the local level, you will fail. It doesn't matter how good the plan is and it doesn't matter if it's a local plan; you need leaders. The DHCs are good leaders, from my perspective, because generally they're facilitators and brokers and they've been very involved and they're very networked within a community.

I also believe that in the past four or five years, the environment has changed. People have a greater realization that they could do things differently. I think if plans are implemented in a way that's cognizant of all the ancillary concerns that people have, they will be much more successful.

The basic issue I've found in restructuring commissions—and I led the implementation of the Guelph hospital study and I sit on the Hamilton task force in looking at restructuring—is that people want care when they want it, but where they get it is not as big a problem. If they don't get it, that's a problem. A lot of the care that we provide now, we could provide in a different place: role function change for some institutions and a buildup of primary care services. In some communities it

may be much more appropriate not to have a hospital but to have a community health centre or a primary care centre where people receive 80% of their care and only have to travel for another percentage of care. In communities in urban settings, people don't like to travel for care, but in a great portion of the province that's what they're used to doing and they always have done. So looking at how you can reorganize that in a way that supports the local perspective, you will be successful.

You were talking about \$1 billion coming out of the system. I think that's a difficult question to answer off the top of our heads, but if we look at the cost of 8,500 beds coming out over the past four or five years, it's probably reasonably close to that. If you took away the bricks and mortar, you'd save even more. Health care hasn't suffered to the degree that had been predicted, because the delivery system is full of committed and very progressive and innovative individuals at the provincial, regional and local levels. Given opportunities to expand on that, I think it would be very surprising if it didn't work well.

Mr Kwinter: I'd like to follow up on the train of thought that Mr Carr was pursuing. In your recommendations you state that "The Minister of Health and the Health Services Restructuring Commission should closely examine the advice of communities—for example, the district health council restructuring plans—before making decisions on what is in the best interests of the communities affected by these decisions."

I have no concerns about the idea of restructuring hospitals and, as everybody says, as long as it's not my ox that's being gored, go ahead and do it. But I do have a concern when the district health council sets itself up as the community, when in fact they're not really the community; they are a body that has responsibility for, in this case, the hospital restructuring.

To give you an example, there are two hospitals in Metro which, since the final report of the district health council has been delivered to the government, have brought out reports that show in certain cases the premise that went into the decision was wrong, the figures were wrong, that criteria that were used to justify the keeping open of one hospital were used to justify the closing of another. I'm not trying to argue the case; I'm trying to say that when you recommend that the communities should be consulted and that it should be in the best interests of the communities, I find that somehow there's a contradiction that in some of those communities they're saying: "This hasn't been done in the best interests of our community. It has been done because of expediency in trying to cut some costs, but that may be a detriment to our community, not in the best interests of our community." Do you have a response to that?

Ms Brown: I think that in particular around some of the concerns in the Metro study, it was an unfortunate lesson in terms of the data that created that difficulty. However, notwithstanding that, I think the DHC processes for hospital or health services restructuring within their community will stand up to scrutiny. The broad involvement at a variety of levels of consumers, whatever that means—citizens, stakeholders, and care providers and front-line workers—in developing a plan fosters the best

plan for that community. I'm not saying that it's a unanimous consensus in all cases, but that there is a majority who support that particular perspective.

I would suggest that processes that are utilized by DHCs in order to arrive at the results of the studies be examined, because the methodology of how you get there is what makes the difference in the quality of the program, and I think the DHCs have the best methodology and in a sense have the only methodology. I mean, in the past five years DHCs were given this responsibility without—you should excuse me—a lot of financial support, absolutely no community development, an environment where in many communities the hospitals didn't speak to the other primary care providers, didn't have a good idea of what the outlying or fringe support services in health care were, and thought the DHC was really just a bothersome meddler.

1400

In that environment district health councils and district health council staff and volunteers have dedicated millions of hours to making their individual communities better. You couldn't afford to pay for that. No government could afford to pay for that kind of process.

By and large, it has been very successful, and I feel very passionately about this. However, if there are concerns, DHCs processes are always open to review and should be asked for. We believe in what we do. We do not believe we are servants of the government but facilitators within the community to help implement what's best for that community.

The Chair: Thank you very much, Ms Brown. Your time has expired. We appreciate the Association of District Health Councils of Ontario coming in and making this presentation to us.

ONTARIO GOOD ROADS ASSOCIATION

The Chair: If we could now move to the Ontario Good Roads Association, Mr Merrall and Sheila Richardson, executive director.

Mr Phillips: Who's handling the bad roads?

The Chair: It must be the ones in Halton.

Mr Phillips: The old shocks have gone on my car.

The Chair: We have 30 minutes. You can divide that time as you see fit. We would like to have some opportunity to ask questions.

Mr Denis Merrall: We'll try to keep it brief. I think the questions are the fun part of any meeting with new people. I'm Denis Merrall, second vice-president of the association. I guess I'm the third line on the team, but sometimes that third line on the hockey team can hold its own on the ice anyway.

Mr Carr: I thought he sat on the bench there.

Mr Phillips: There is the old goaltender there.

Mr Merrall: Our president and first vice-president are at home attending municipal council meetings. This is a busy time of the year for us municipal people, and it's certainly a challenging year for us.

For those of you who are unfamiliar with our association, let me say that it is a municipal association representing the roads and transportation concerns of over 750 municipalities in Ontario. Our members range from large

urban centres to small rural municipalities. Our board of directors is comprised of eight elected representatives and seven municipal staff.

Just to draw a picture, the municipal road network in Ontario comprises over 140,000 kilometres of roads. That makes it more than six times bigger than your provincial highway system.

We are here this afternoon to offer some comments on the upcoming provincial budget. We also want to share our concerns regarding the need for a safe and efficient transportation system that allows people and goods to move, school buses and emergency vehicles to travel and transit systems to operate. In turn, this surface transportation system is the lifeline of our economic viability.

In past years we've come before this committee to plead for a portion of steadily diminishing provincial revenues. This year with the new municipal support grant—I'll call it MSG later, some kind of seasoning salt, but a little seasoning helps I guess—and the merging of transfer payments for roads into this transfer payment, the level of funding for roads is a municipal issue.

While we already know the MSG for 1997 will be less than in 1996, it is not our intent to put forward a case for changing the decision. We acknowledge that reduction in funds for transfer partners is necessary to meet the commitments of the Common Sense Revolution, the platform on which the voters of Ontario elected this government last summer. Although OGRA feels that many municipalities have already over the past few years taken steps to reduce expenditures, yes, our costs have been going down over the years, and to spend more wisely, we also acknowledge that even tougher decisions and steps will be required in the light of even further reductions of revenue.

While we are encouraged that the government seems committed to giving municipalities broader autonomy and access to other revenue sources, we are concerned that decisions made by various individual ministries in the immediate future will result in indirect costs to municipalities that will offset the benefits. We would like to address some of these issues with you today.

First I want to stress that municipalities need transfer payment information as early as possible. This will allow us to plan effectively and efficiently for 1997. If reduced funding levels to municipalities are to be used to encourage restructuring, it is particularly important for municipalities to have early and reliable financial information.

We also need the opportunity to discuss with the government and provide input to the determination of the allocation formula for the municipal support grant. With the inclusion of infrastructure in the municipal assets to be funded by the MSG, it is clear that a formula as simple as one based on a per capita rate will not suffice. Infrastructure inventory must play a part in determining the MSG allocations.

Another issue that appears each year in our comments to this committee is that of downloading. It is still occurring under the name of highway transfers. During the disentanglement exercise between municipalities and the province, certain provincial highways were identified by the Ministry of Transportation as candidates for transfer from the province to upper-tier municipalities.

When a disentanglement agreement could not be reached, MTO continued to negotiate these highway transfers with upper-tier municipalities. Some negotiations were completed with agreements signed and now in place covering approximately 200 kilometres of highways.

OGRA has been advised that the same highways that were on the list during disentanglement make up most of the highway transfers, with some additions. For each of the next two years, \$25 million has been set aside to help with construction needs on these roads. How the money will be allocated has not been announced and we don't know how far this \$50 million in total will go to meeting the capital needs on these highways.

OGRA believes that through the transfer of 2,000 kilometres of provincial highways to municipalities the provincial government will realize significant savings. That's almost 10% of your provincial highway system, to give you an idea of the scale. It is our request that the government share these savings with their municipal partners.

MTO will also revoke non-essential connecting link agreements. Some agreements will be retained where links serve more than local traffic, and in those areas only construction funding will be available from MTO. Maintenance and operating costs will be funded as part of the block MSG unconditional grant. We have not yet been advised which agreements will be terminated and which will continue.

We can see from these examples that the nature and size of a municipality's road system can change significantly. This makes it even more important that the municipal support grant to individual municipalities will be sensitive to reflect infrastructure inventory changes.

We know that the MSG will be 17% less in 1997 and that it may decrease further in future years. As municipalities receive less and less funding from the province, municipalities must have access to road user fees that are collected by the province. I would like to mention the long-standing position of OGRA concerning the dedication of a portion of fuel tax for road purposes. I want you to think of roads as nothing other than any other public utility and the gas tax as a user fee.

Now that discussion of Bill 26 has concluded, and in the absence of a provision for the levying of a municipal gas tax, OGRA reiterates this position that the government should share the revenue generated by the user fee. This would ensure access to at least some guaranteed funding for infrastructure.

We also want to express our support for municipalities, like the province, to use tolls as a source of revenue to fund major rehabilitation of roads and bridges.

I want to quickly mention that municipalities require the regulations under Bill 26 to be published as soon as possible. We need the regulations to clarify the scope of municipal authority.

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I also want to briefly address the sometimes hidden or indirect costs that accrue to others as a result of provincial downsizing or privatization. A very significant concern of our small rural members is the absence of the expert knowledge and advice that had been formerly available through the Ministry of Transportation. We believe

that access to this assistance must remain available to these small municipalities. It is in the best interests of maintaining a safe and uniform transportation network that such expertise be available.

The MTO bridge office or structural office is currently reviewing its role and mandate. It has traditionally reviewed and approved bridge designs and load limit by-laws for municipal bridges, something similar to your municipal building permit reviews. The structural office is considering changing the approval process to a review and monitoring process. Under the proposal, the structural office will develop policies and procedures for municipal bridges, monitor bridge designs and load limit bylaws and provide technical support to municipalities and consultants.

OGRA supports this proposed monitoring role and the requirement that municipalities submit to the structural office plans for municipal structures. However, we support this practice only so long as there is no fee charged.

It has come to our attention that the Ministry of Transportation has signed an agreement giving trusteeship of the copyright of MTO knowledge products to a publishing house. The agreement covers information previously considered to be in the public domain and includes MTO publications, course content, training videos and software. Much of this information we, as municipalities, have contributed staff time to help develop. Municipal associations such as OGRA and even MTO itself will be required to purchase these products back from the publishing company. While OGRA has no argument with MTO removing itself from this business, such unilateral action should not have occurred without taking into consideration the impacts on the municipal level of government.

I want to take a minute to respond to a comment we hear often these days, that there is a need to give municipalities the tools they require to manage their own affairs, to implement measures to get spending under control and to adjust to new fiscal realities. Many municipalities have in fact been doing just that for some time now. We are already well under way with downsizing, realignment of services and cooperative ventures.

Our association offered, along with MTO, the Municipal Engineers Association and the Association of Ontario Road Superintendents, a program called Cooperation Pays, which assists municipalities wishing to participate in cooperative road management projects with other municipalities. We have also developed processes to assist municipalities in evaluating the performance of their operations, administration policies, budgeting and planning, and workforce training. We are currently focusing on developing information on management issues such as agency amalgamation, restructuring management, right-sizing the workforce and such roads-specific issues as patrol yard rationalization and the optimum size of a road agency.

OGRA is also taking a lead role in looking at standards for municipal roads and structures. Now that the conditional funding formula no longer provides a mechanism for ensuring uniform and safe road system standards, we hope that by identifying and in some cases developing design and geometric standards, service

standards, maintenance standards, rehabilitation standards and product standards, municipalities will voluntarily adopt them if they are realistic and affordable.

We believe that if the province keeps its commitment to give municipalities the tools they need, municipalities will attempt to maintain a safe and uniform road network to support the provincial highway system and Ontario's economy and society. But it would appear that many of the tools initially introduced in Bill 26 have been removed or made ineffective by lobbying by those who do not think municipal councils are responsible enough to be given such authority. Municipal councils are an elected level of government and the electorate speaks every three years. I ask that you give municipalities the authority and tools to make responsible decisions.

I wish to take a minute to address another area currently receiving a lot of attention at the Ministry of Municipal Affairs and Housing, and that is in the area of performance measurement, performance indicators and performance standards.

The minister wishes to require municipalities to publish, on an annual basis, performance indicators for municipal services. At the same time, the minister does not wish to significantly change the amount of information collected from municipalities. In the case of roads, it would be counterproductive and at best meaningless to publish a performance indicator such as dollars spent per kilometre. OGRA is currently investigating performance indicators that will allow meaningful comparison.

I would like to conclude by stating that OGRA welcomes the opportunity to participate in your deliberations. We know your task is not an easy one and we hope we have provided some suggestions for your consideration. Thank you.

Mr Ford: Welcome, Denis and Sheila. It's nice to see you here. I've had a bit to do with some of this road construction, and I'd like to ask you a question. Does the OGRA have any fresh, new ideas in a think tank that would save the government dollars? For instance, I see road-paving jobs going on and the spreaders and so on—they're getting fresh asphalt—but I see other places, miles and miles away, where they're digging up the roads and remixing. You're probably very familiar with this; I see you've mentioned that. These are relatively new technologies. I wonder if you have a think tank to govern these types of things, that you're going to be able to save the public's money and get more done with it. With the machines regrounding and re-laying, they have fresh asphalt in there, but only to a certain extent, and there are various methods of doing that. In your think tank, do you have enough of these people who do this type of thinking on cost-cutting and different things of this nature?

Mr Merrall: Thank you. You've hit one of my personal causes. One of our association's roles is technology transfer. It's a relatively new role that we've started over the last three years and have really gotten into, pooling both Ministry of Transportation expertise and municipal expertise. You call them think tanks; we call them technology transfer seminars. We've run them on roads and bridges, and we're planning one this spring on winter maintenance.

We're bringing together the contractors, consultants and the road providers, being the provincial staff and the municipal staff, to exchange information on how these things work, the right places to use them and the wrong places to use them, because a lot of great ideas are used in the wrong place and appear to be failures when they're not truly failures.

That is one of the things we have been doing. When you look at the unit costs on roads, the cost to deliver the product, and look back over the last 25 years that I've been involved in roads, you'll find that our unit production costs have been going the same way as the VCRs: Our unit costs have been going down. We do deal with tremendously bigger volumes and heavier axles and our needs are changing somewhat, but truthfully, our production costs have gone down through the use of new technology over the years.

There are other areas we're looking at, and we mentioned restructuring. Roads are a geographical component, and we have a lot of individual road authorities letting separate contracts and a lot more pooling of contracts, a lot more sharing of facilities.

Mr Ford: That's what I'm trying to get at.

Mr Merrall: The Ministry of Transportation has, just over the last two years, got involved with us in the sharing of facilities as well. We need to emphasize that. There still is a lot to be done. If we look at our neighbours, the states adjacent to us, I think you would find there is a lot more pooling and a lot more joint use.

Mr Ford: I've had a little experience stateside, and I thought maybe we could have a little more efficiencies pulled into that area. I see they're doing it. You and your partner there seem to be on the ball, so these are the things I'd like to stress to you.

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Mr Phillips: I appreciate your comment on the use of tolls as a source of revenue. The bill, as I think you know, does permit municipalities to impose a toll. I gather from your comment that you support that and think that's one way some municipalities may be able to raise funds to construct or maintain roads. Is that a fair statement?

Mr Merrall: It is, but it's very specific. With the road grids the way they are, tolls in general won't work. But if you have a specific, very expensive bridge project, there is no way the property tax will support it. Tolls are maybe the only way to pay off the debt on some of these things.

Mr Phillips: I appreciate that. So you're happy with that provision in the bill?

Mr Merrall: Yes. It's not a tool that will be used widely, but I suspect it will be a tool that may be a lifesaver in certain instances.

Mr Phillips: You indicated that you were disappointed that many of the tools that were initially in Bill 26 were taken out. What specifically were you speaking of there?

Mr Merrall: I know it was very controversial. The one tool we were looking at was the ability to raise a municipal gas tax. We're in a situation where we generate revenue for the province. The upper-tier road network, the counties and regions, are a profit centre for the province today. At the same time, we're not having the

revenue to continue to deliver the service. I see it somewhat like asking Ontario Hydro to collect the revenues for the gas company and give some back to deliver gas.

Mr Phillips: Was the Good Roads organization initially of the opinion that the bill did permit that? You'd assumed that it did permit a municipal gas tax?

Mr Merrall: That was our assumption from our first reading, yes.

Mr Phillips: Had you had a conversation with ministry officials on that? You made the assumption that that was the intent of the bill.

Mr Merrall: It was our interpretation of reading it.

Ms Sheila Richardson: We did not get a legal interpretation.

Mr Phillips: Does Good Roads meet at all with the government and talk about its proposals?

Mr Merrall: Yes, we meet with staff of MTO, and we're setting up a new relationship with MMAH, hopefully, because MMAH is going to be involved much more in municipal roads in the future.

Mr Phillips: Had you assumed that they'd listened to your concerns, and that was part of Bill 26, I gather, that you thought that, "Aha, finally we get the gas tax"? Is that a fair statement?

Mr Merrall: It is, but at the same time, municipal gas taxes spread out, different ones in every municipality and the collection mode, isn't the most efficient way to do it. Truthfully, the most efficient way to do it is at the provincial level, asking the oil companies to submit—

Mr Phillips: I gather that. I'm saying that your reading of Bill 26 was that it was in there and then through—I mean, Al Leach decided that—

Mr Merrall: It was certainly controversial.

Mr Phillips: Yes. I feel a little badly that you're blaming other people, because he said it was never in there in the first place. I'm with you, actually. I think it was intended to be in there, it was there, somebody's hand was caught in the cookie jar, and it was taken out. That's my own judgement. As soon as the bill came out, there were so many municipalities saying, "Thank you, we've got it now," that it was no accident, in my opinion. Any other neat tools they took away from you in Bill 26?

Mr Merrall: There were some tools I was looking for and I didn't see. I guess we're waiting for the regulations in Bill 26.

Mr Phillips: What would be an example?

Mr Merrall: There's a certain identified need to restructure how we deliver the road services. We have over 800 road authorities in this province trying to deliver services and a certain degree of duplication. We were hoping for some greater help in sorting out the legalities of restructuring or merging or migrating services. Certainly there's a lot of room in writing the regulations to Bill 26 that can give us the leeway or the guidance to pull things together.

When you try to merge services, when certain municipalities have different debt levels and everything else, requiring unanimity in any government structure—whether it be the trustees of a church or municipal councils, unanimity is impossible to get in every issue. We would like to see some of those issues dealt with. It would have been nice with the legislation, but I think

there's room to salvage with the regulations. Let's go out and make our life easier to restructure; avoid us getting caught up in legal battles. The minute we get caught up in legal battles, we waste a couple of years fighting it out and we lose the momentum to carry forward the good decisions.

Ms Bassett: On a point of order, Mr Chair: Correct me if I'm wrong, because I don't know the system, but I think Mr Phillips gave a leading question. You said, Mr Phillips, through the Chair, "Is there anything else that they took away from you?" implying that something was taken away from Mr Merrill.

The Chair: I don't believe that's a point of order, Ms Bassett.

Ms Bassett: It was just not correct. It's not a point of order?

Mr Phillips: Just to be helpful, when he said, "It would appear that many of the tools initially included in Bill 26 have been removed," I paraphrased that to say "taken away."

Ms Bassett: It's a big difference.

Mr Phillips: I may be dancing on the head of a pin. Rather than "taken away," I will adjust the record to say "have been removed." That may be technically quite different than "taken away," but where I come from out in Scarborough it's a very similar thing when somebody says, "I've taken away your garbage" or "I have removed your garbage." I interpret it as the same, but my apologies to the member if I misread "have been removed." I will say, rather than "taken away," is there anything else that has been removed from you?

The Chair: We will accept your ability to dance.

Mr Phillips: No, no, it's not my ability.

The Chair: Well, you were dancing on the head of a pin a minute ago, Gerry.

Mr Phillips: I'm glad you feel badly that I've been misinterpreted when I said "taken away."

The Chair: Don't infringe on Frances's time, now. She'll be mad at you.

Ms Lankin: Mr Chair, I'm sure you would not allow that to happen.

The Chair: We'll do our best.

Ms Lankin: That was a very important clarification we just got.

Mr Phillips: I feel badly.

Ms Lankin: Gerry feels badly. I feel badly that he feels badly, but I want to go on with some questions. I'm interested in the comments you made about the use of tolls as a source of revenue to fund major rehabilitation projects, roads or bridges. Actually, I take your point that, given the nature of the road grid, this is not a feasible option for minor repairs or for normal road construction, but for major projects it would be.

I don't know if you are aware, however, that the minister—his parliamentary assistant as well—when he was asked specifically about this new power given to municipalities to impose tolls on road projects such as this, suggested that he thought that would never be used and he didn't think that was a very likely scenario. In fact, I think the suggestion was, if not explicitly, then implicitly, that we were fearmongering to suggest that might even be a possibility in certain areas. It was

pointed out to us very clearly that the minister did retain the power to say no and that that might be an occasion in which he would utilize it, because that might be an inappropriate use of these new powers.

Have you had any discussions with the minister? Have you got any clarifications about whether your organization can work with municipalities to utilize that option where it's viable? I recognize that won't be a lot of circumstances. Or is this an area where in fact the minister might, if there's enough heat, move in and say, "No, that's an inappropriate use of the power"?

Mr Merrill: I think we've just blown the toll issue up to bigger than it is. Essentially, we have a situation where people need the road network to get to and from work, commerce needs the road network to move goods and services. What we don't have is a revenue source to handle the big projects any more. When it gets down to a situation where, unless something unusual in funding comes forward, this bridge isn't going to be replaced and people aren't going to get to work or be able to utilize the hospital on the other side of the river and goods aren't going to move, I would suspect, whoever's in government, there's going to have to be some realization that we have to meet the fundamental needs of the residents of these communities. If the government wants to come forward and say, "We don't want tolls, but we'll pick up a share of this cost and make it happen," that's an opportunity.

Ms Lankin: Mr Merrill, I don't think I was actually blowing it out of proportion. I think I took all your cautionary comments, accepted them, and said it would be in extraordinary circumstances. What I was wondering was whether you'd had any assurances from the minister that in those circumstances you could proceed with this, given that the power is there, or whether he would use his unilateral power to say no to you at the end of the day. I'm taking it the discussion hasn't taken place yet.

Mr Merrill: We haven't had that opportunity yet.

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Ms Lankin: Let me move to a broader sort of issue. I think it's very unlikely you're going to get your wish on getting a portion of the provincial gas tax, that road user fee, given the fiscal situation facing the government, given that they're scaling down transfers to the municipalities; that would be a tax expenditure sort of transfer, but it would still be a transfer. So that's unlikely.

Infrastructure spending by the province is being shrunk, in terms of direct roads, but also in terms of special projects, cost-shared projects, whether it be under special programs like the tripartite government program. We can see mounting pressures for infrastructure spending in municipalities for water and sewer and looking at how we pay for that. We can see the roads. What I'm wondering is, if there isn't some stable funding or if there isn't the ability to get part of that user fee through the gas tax, what are you going to do with respect to our roads or what can we predict in terms of the condition of our roads over the next five years, let's say?

Mr Merrill: The model for what we're going to see occurred across the border a number of years ago. We will do the best we can with what we're given, because that's our job. What has happened with the cuts in the

municipal support grant is that municipalities have very little room to work with, so most of the cuts have come out of road capital. This road capital is not only the road widenings, but it's your road resurfacing, it's your bridge rehabilitation, it's the things that keep your system glued together and keeps a surface to drive on.

Ms Lankin: Is there not a job and economic spinoff impact of that as well?

Mr Merrill: There is that. We've past that point. I think we're talking survival of communities, we're talking keeping the economy of our province running. The economic spinoffs—we've cut below that now. I think we're down to the point where we're going to have to start making some very serious analyses about what is the impact on the general economy of our province. It is going to happen. The parallel across the border is that the roads got so bad there became a public hue and cry for dedicated road funding and, lo and behold, dedicated gas taxes took hold in the US. We are going to see the same thing here, what we have in water and sewer.

We have water meters in our homes. You pay for your consumption. Municipalities this year are widely adding sewer surcharges to the water bills to pay for the sewer infrastructure rehabilitation. So we have come up with a user fee, based on consumption, to make water and sewer self-sufficient. We haven't created a simple mechanism for roads yet, to make them self-sufficient and self-supporting. Until we do, we are always going to be in this problem of treating the road gas tax as a tax expenditure, transferring it on, when truthfully you have to feed the cow if you're going to get a little milk out of it.

The Chair: Thank you very much. I appreciate the Goods Road committee coming in and talking to us.

TORONTO COMMUNITY VENTURES

The Chair: Toronto Community Ventures, Mr Allan Reeve. We have 30 minutes. You can divide that any way you wish between your presentation and questions.

Rev Allan Reeve: It's actually Rev Allan Reeve. I'm a United Church minister who works in South Riverdale and the east and downtown communities of Corktown and Regent Park. For something completely different, I'm not going to talk to you about cutbacks to the social service safety net. I'll only add "ditto" to our moderator's letter to the Premier.

I thank you for the opportunity to speak to the committee. I'm here today with my associate John Chang from Toronto Community Ventures. We have been a part of a grass-roots, church-based and church-funded economic development effort in the communities of Riverdale and Corktown for the past seven years, and what I'd like to speak to is your government's investment in community economic development.

My church is a wood shop in Ataratiri, in a city-owned and soon to be a provincially owned vacant building, where there are now 15 businesses housed under one roof, one small roof—3,000 square feet. There are over 40 people who work there developing small enterprises, sharing in the access to equipment and the facilities that have been put in place by the community.

This is a long-term investment that has been put in place. The church has invested over half a million dollars

over the last year in my time and in a variety of resources, and there's at least another half a million dollars in terms of the sweat equity that the workers in these small businesses have put in of their own time and effort, not only into their own businesses but into the common community organization that we've been able to create there.

The people I'm talking about are the people the headline of the *Globe and Mail* is talking about, "Jobs Cut Despite Hefty Profits." These are the people who are affected more and more by the job losses in our new economy, this new economy where people are dropping out of full-time jobs.

I refer back to a report put out by the government on the future of work. There's a particular image there that I think was very striking. It showed two triangles representing the modern-day company. One is the old company and one is the company of the future. The old company had one person at the top, three people in the middle and seven headless people on the bottom row. The new company that the report was suggesting was the future of our economy, the future of work, had three people at the top and five people on the next row. The report went on to address this new company and how it was more horizontally managed. What the report did not address is what happened to those seven headless workers in that old company.

That's my question to your government: What are your plans for the thousands upon thousands of workers who were once employed in the manufacturing sector, who were employed in many ways in jobs that we all agree are not going to come back? So what is it that your government can do to reinvest in the futures of those people?

I believe that community economic development is a strategy that can work for these people. It's a strategy that comes first from the community, that will come first from leadership within a community, and it is up to the government to follow, to respond to the leadership and the resources and the assets the community first invests.

I'd like to spend a few minutes talking about our particular case at Toronto Community Ventures, just to give you a sense of a model and what can happen. With Toronto Community Ventures, there is a vision. It's a long-term vision of co-creating healthy workplaces within a healthy community, workplaces where wealth is generated in ways that are just, sustainable and participatory, a community where wealth is circulated in ways that allow all community members the opportunity to work and live, where we can integrate our economic, social, spiritual, cultural and environmental needs.

We've set up Toronto Community Ventures as a non-profit community development corporation. Its main focus is economic development. We provide facilities and resources to people who want to work in an entrepreneurial way to create community economic initiatives.

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Since 1992, as I spoke of earlier, we have created our first self-sustaining enterprise centre. Our shop down on 158 Eastern is now self-sustaining. The 15 member businesses that work there cover all of the operating costs. There is no government funding currently going

into that operation. In the last year, for the first time, we did receive some provincial funding, but even when that was removed this year, that group continued on. In fact, it continues to strive together and to work together. You can't kill that group with a stick, because those people have invested in that shop, invested in their small businesses. They will be there for the long term, whether you are or not.

But there is an opportunity. Our group is now set to open up a second facility across the street in a 20,000-square-foot building, again vacant. It's been there vacant for the last five years, while the Ataratiri deal is worked out, and I know you're all looking forward to adopting that property, but with that property, with the Ataratiri mess, you will be adopting a gem in there. In that further 20,000 square feet there will be another 20 businesses employing over 100 people working in a cooperative manner, accountable to the local community and involving the local community in meaningful ways and meaningful work.

We've identified seven keys to our success, why this has worked, and I'll quickly run over those and also make note of the opportunity for your government to invest.

The first one is the importance of sustained leadership over many years. There are two kinds of leadership that need to happen here. First of all, leadership has to come from within each enterprise, from within each business. There must be business leaders, such as my associate John Chang, who took it upon himself to start a business, but a business that would not only employ himself but would reach out and employ unemployed and disadvantaged workers in the community.

The other kind of leadership is a leadership that can respond to the initiative of someone like John and work from the community side. While the leadership is working from the business out, there needs to be another form of leadership—call it a facilitator, an animator, a community developer—who works from the community in. That facilitator works to draw upon the various community sectors. That person, that role, that organization, whoever carries that, needs to be at arm's length from the private sector, needs to be at arm's length from the social service sector, needs to be at arm's length from government staff, but needs to involve all of those sectors into economic development. That's the opportunity.

In our case, the church invested in that kind of leadership and has put me in place, but in communities where perhaps there are not sources of funding initially, that is the kind of leadership that the government can invest in, at least initially, until wealth is generated from within the enterprises that can eventually pay for those kind of development costs.

The second is access to information. These are networks. We draw in business mentors, volunteers. We find we have a wealth of people who are willing to volunteer their time to sit down with our business people. You name it—marketing, finance, accounting, product development—whatever the needs are, we can find people who are willing to work with them. So access to those kinds of networks is important.

Also we draw together the people into that common facility. Peer support is often overlooked in economic development strategies, but it is essential. These kinds of networks can happen naturally, but the role of the community developer, especially in urban areas where it's difficult sometimes to make these links initially, is key.

What can also be key is the common facility, is having a place—in our case it's a shop; in other places, it might be an office building—some kind of common facility which is a natural meeting place for entrepreneurs, community people to come together to start building relationships and business plans and meeting together. That's the next one—access to equipment and facilities. Our enterprise centre model is a way for government to invest its capital in ways that can be accessed by people, by many people, over the long term. Government capital investment in equipment and facilities that will house community business development will continue to serve the community on a self-sustaining basis for years to come.

This is an opportunity to invest in the tools and the facilities with an initial investment from the government matched by the private sector and/or community sector. It can be an ongoing asset for the community. This kind of model has been used in the developing nations by the Ford Foundation, by the United Nations very successfully for many years, for decades. It's about time we started to apply that same methodology in our own communities to solve the same issues of poverty and unemployment. Access to facilities and capital where small entrepreneurs cannot afford themselves to purchase the technology: The community can put in place technology that can be accessed by a number of different entrepreneurs, for them to build their business.

Access to credit, number 4, is another key piece in any kind of economic development. Often we're talking about entrepreneurs and/or community groups, co-operatives, that do not have their own collateral and need creative means of accessing credit. Again, the church has led the way. Currently, churches—the United Church of Canada, the Anglican church, the Catholic church—have these kinds of revolving loan funds that are available. We need much more, and the government in particular has created a couple of vehicles that I think deserve attention, and because they are also RRSP-eligible, they are much more attractive for community members to invest in the development of their own communities. I'm talking about the labour-sponsored investment funds, which are key to the development of small to medium-sized businesses. We're talking about quarter-million to half-million-dollar kinds of venture capital investments in existing, viable business. Also, these will be key to worker buyouts of viable but downsized industries in our communities.

There are also the community loan funds which were created by the previous government and that I believe deserve attention. These are important vehicles. While they're young and there are bugs to be worked out in these kinds of programs, these are vehicles that will create access to credit for, as I said, entrepreneurs who do not have access to traditional credit sources. They are also a vehicle for people from communities who believe in their communities and who want to invest in the

economic development of their communities. These are vehicles which our government can put in place for people to do that.

Access to marketing and markets is number 5. These are major challenges to any small businesses. Government can support the development of self-sustaining marketing infrastructures that create access to larger markets. These are networks, these are infrastructure, marketing expertise that can be provided to community ventures that provide them access to larger retail markets. We have a particular project which offers a model that's called OCM marketing and development. It's setting up a province-wide network to give small, craft-based producers access to larger retail markets. Without that kind of infrastructure in place, craft people and craft producers, small-scale craft industries, are marginalized.

Another opportunity for the government in terms of marketing is government goods and services. The purchases of your government in terms of goods and services is in the millions of dollars. This market is often untapped by local community businesses due to information barriers and also due to financial and/or credit barriers. There are often terms of credit that are in place before a local community group or contractor can bid. With some work, some of those barriers I believe could be removed.

Numbers 6 and 7 are what we call "learning, not training." While classroom training programs serve many, they typically do not serve the needs of marginalized workers or provide hands-on experience to overeducated and underemployed workers. Training programs often will have a high turnover and turn people out, but in our experience what entrepreneurs need is hands-on business experience. They need the time and the opportunity to learn it by doing it. Government training programs do not offer that.

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Instead, what are the ways that the government can encourage on-the-job training? Apprenticeship programs are one. You need the opportunity to create apprenticeships in starting your own small business. The enterprise centre model offers that.

Of all the Jobs Ontario millions of dollars that were spent, the most effective for this particular purpose were \$10,000 matching grants that were directed at feasibility studies for business plans. Entrepreneurs would come up with their small business ideas, they would be community businesses and/or cooperatives and they were able to access a \$10,000 grant for a feasibility study.

What this in effect did was, these were the dollars that actually went into the hands of the entrepreneurs, where many of the other dollars went into the hands of consultants and community developer organizations like me. These were the dollars that made it through to the actual business entrepreneurs who are able to use that. In essence, it was the first venture capital that your government invested into their ventures. Those small grants enabled these entrepreneurs to get things going.

Our urban sawmill cooperative wanted to set up a sawmill. They used that feasibility study grant to buy a truckload of logs, get the logs, cut them, sell them and that was their feasibility study. It allowed them to understand their business, to make their first venture into

it and from there to develop a business plan. Currently, that business employs 12 people. They've borrowed money from other investors. They have two sawmills and just purchased a \$50,000 dry kiln. That initial venture capital investment that was accessible and available to small community-based entrepreneurs gives the opportunity to attract further investment and to create jobs.

The final ingredient—and this is perhaps the most difficult for a provincial government to address—is the need for time. While your mandate spans four or five years, community economic development requires long-term commitment. A lot of government programs—we're talking about how many people—are measured by how many people are put through the program, whereas in business development, economic development, the real question is, how many of those people are in business five years later and/or 10 years later?

In terms of investing in community economic development, the capacity of a community to work together to create ongoing, viable strategies for wealth creation requires long-term investment from partners who believe in the community.

In summary, most people in Ontario now are afraid of what the future will bring. It is a time of great uncertainty. When I go and speak to church people across this city, when I speak to people in the community, we all have the same question: What is the future going to bring in terms of employment? While an immediate fiscal crisis is undoubtedly present and exists, people need to look beyond the short-term pain of the changes that are occurring and understand what their role in the new economy will be. Community leaders are responsible for all people in the community. The question is, what kind of an economy can we create that will utilize all the skills of all our community members?

People who are not working, who perhaps are receiving social assistance and/or pensions I think we typically put on the liability side of the balance sheet. They are considered a cost in our economy. In terms of long-term vision of what our economy must be, we have to take those people off the liability side of the balance sheet and consider them our greatest asset. A government that can look at all people in our community and consider them first our greatest asset is a government that will invest in those people, in all those people, and in strategies that will provide for the long-term, deeply rooted economies: economies rooted in local communities, economies that are rooted in leadership that comes first from community and creates opportunity out of the unique strategies, resources, skills and people in that community.

It's a pioneering spirit. It requires long-term vision. This kind of economics is like farming. You have to clear the land, you have to pull out the old roots and you have to plow the fields before even a seed can be planted. It takes time. It took us seven years, half a million dollars. Five years ago, three years ago, we had almost nothing to show for that investment. Seven years later there is a harvest: 40 people working, a new centre that will employ over 100 people in the next year or two. Even as the vineyard grows it takes pruning, it takes fertilizer, it takes time. It takes a lot of work. Sweat equity.

People here who I know are receiving social welfare benefits want to work. They want the time. They want to put in the time. They have skills. They're looking for the opportunity. They're looking for the access to facilities, technology and credit in order to make their dreams, their vision for their communities come true. That is the way the government can invest in a harvest that will yield a wealth created from the grass roots up.

Thank you very much for your time.

The Chair: Reverend Reeve, you've used up your half-hour presentation time. We thank you very much for coming in and making this presentation to us.

ONTARIO HOME BUILDERS' ASSOCIATION

The Chair: Our next presenters are the Ontario Home Builders' Association: Mr Brubacher and Ron Sarginson. Welcome to the committee. Could I ask you to identify yourselves for Hansard, please. We have half an hour.

Mr Laverne Brubacher: My name's Laverne Brubacher.

Mr Ronald Sarginson: My name is Ronald Sarginson.

Mr Brubacher: Good afternoon. We're pleased to be here. I'm president of the Ontario Home Builders' Association, and I'm also a renovation contractor from St Jacobs, which is just north of Kitchener. Ron Sarginson is the first vice-president of Ontario Home Builders' Association and he's a house designer from Ottawa.

For those of you who may not be familiar with Ontario Home Builders, we are a voluntary association of companies in the home building industry. We have approximately 3,500 member companies in 35 locals across the province.

I understand we have half an hour, and our prepared remarks are relatively brief, so there will be plenty of time for questions.

I'm going to give you a general overview of the housing industry and I also want to comment on the strategy for fiscal management that the government is implementing. Then I will turn things over to Ron to talk about some of the government's recent initiatives that affect our industry, and he will wrap up with some thoughts about the prospects for a recovery in housing.

There's probably not much that needs to be said about the state of the housing market. The numbers speak for themselves. For the record, we built 35,818 housing units in Ontario last year. This is down 23% from 1994. Both 1994 and 1993, you will recall, were weak years. Single, detached housing was the hardest hit, down by nearly a third. Last December we surveyed our members to find out what they think lies behind these numbers. They sum it up in two words: consumer confidence.

Here's what a potential home buyer faces today. He or she probably knows somebody personally, either a friend or relative, who has lost a job. He reads the newspapers—I'll use "he" for economy—and he knows his job is not secure. Either technology or a merger could wipe it out tomorrow.

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This lack of job security is compounded by the gradual decline in the purchasing power of his income, and it is further aggravated by his rising indebtedness. In a

nutshell, today's consumer makes less, owes more and is less secure than any consumer in recent memory.

That's bad enough, but someone thinking of buying a house has an added concern. Although mortgage rates are very low in absolute terms, they are very high relative to the rate of inflation. With house prices stagnant or falling, the purchase of a new home can no longer be justified as an investment.

Much of the weakness in the housing industry during the 1990s can be traced to four key trends: eroding confidence, reduced buying power, rising real rates and a growing underground. There's one thing under government control that has driven all of these and that is fiscal management.

I would like to quote from a presentation that we made to this committee three years ago: "We are extremely concerned about the size of our provincial deficit...You can't keep deficit-financing one fifth of your operating budget year after year and expect to stay in business...We see additional problems on the horizon if the deficit cannot be brought down to more manageable levels."

As a renovation contractor, I go into my customers' homes and sit down at their kitchen table every day. Builders do a similar thing, meeting with customers who are contemplating a major purchase decision.

This is why we have been and remain concerned about the deficit. We know that taxpayers, who are our customers, are concerned. They are concerned about the rising debt and they are concerned that more and more of their tax dollars are financing government spending that has gone out of control.

This is why the Ontario Home Builders' Association supports the fiscal management strategy in the Common Sense Revolution and it is why we are encouraging the government to fully implement that strategy as quickly as it can.

Hardworking men and women need to see that their efforts are being rewarded. They need to believe the government is spending their tax dollars fairly and responsibly and they need to see a future that is assured by economic realism today.

Now I'm going to turn things over to Ron to talk more specifically about issues that affect our industry.

Mr Sarginson: Good afternoon. As a businessman in our industry, I am saddened by past developments that have hurt construction and frightened by future unknowns that may further erode consumer confidence and purchasing power. But as an association executive who has to step out and look at the bigger picture, I can tell you this government is giving us reason to look on the bright side.

Since June 8, a number of recommendations that we have made over the years are suddenly being acted upon.

The government has put an end to the wasteful spending on non-profit housing that was so badly distorting the housing market.

Genuine streamlining has been introduced into the planning and approvals process and balance has been restored in the policies that guide that process.

An amendment process is planned for the Ontario Building Code that will reduce construction costs and ensure that regulated standards make sense for both the building industry and consumers.

The groundwork is being laid to review the Development Charges Act that will restore this tax base to its original intention of financing hard services.

In addition to all of this, there are two specific areas in which immediate action is needed. One is the harmonization of the GST and PST; the other is deregulation in the rental market.

With respect to harmonization, we urge the government to make a decision one way or the other quickly, and we urge that that decision not increase the tax burden on new housing. Implicit in the changes I have just listed is the recognition that housing is overtaxed and housing is overregulated. This principle must guide any decision on harmonization.

With respect to deregulation of the rental market, the government has made it clear that ways must be found to bring the private sector back into this market. For at least two reasons it is important that this happen quickly. The first and most obvious reason is that there is no other source for badly needed rental stock. The second reason is that the most realistic opportunities for near-term recovery in housing lie on the rental side, and by "near-term" I mean within the next couple of years.

Changes to the approvals process, the building code and development charges will create a market that better serves the needs of the people of Ontario. But obviously these changes will not restore confidence in the overall economy, and this is something that must happen before people return to the ownership market in a big way. Until that happens, the key opportunities for a recovery in the housing market are on the rental side.

The changes I have listed will help bring down the cost of building rental stock, but considerably more needs to be done before the private sector is prepared to invest in this market. Unfortunately, the steps that need to be taken are being misrepresented. This misrepresentation is creating unnecessary fear in tenants and building controversy where it is not warranted.

Anyone who has seen the badly deteriorated condition of many apartment buildings knows that the current system is not protecting tenants, and anyone who has seen the annual start figures for private rental apartments knows the current system is not protecting tenants.

We have recommended a number of measures to encourage more private sector activity in the rental market. They offer the only workable solution to the problems that tenants face, and they offer the best prospects for a rapid recovery in the housing industry.

In conclusion, there are a couple of points that probably bear repeating. As Laverne explained, the housing market is extremely depressed and much of this can be traced to the lack of consumer confidence. The home building industry believes that the government is on the right track, both in terms of fiscal policy and in terms of policies that directly affect the industry, but it will take a while to restore consumer confidence, so over the next couple of years, we expect only a modest improvement on the ownership side of the housing market.

If there is going to be any sudden improvement, it is likely to occur on the rental side, but for this to happen, the government must follow through on its commitment to deregulate that sector.

Thank you for your attention. Both Laverne and I will be happy to try and answer any questions you may have.

Mr Phillips: I appreciate your being here. You indicated that the government commitment to deregulate the rental—what was that commitment? I'm not as familiar as you are with that.

Mr Brubacher: They've committed to taking rent controls off by the end of this year.

Mr Phillips: Take rent control off by the end of—

Mr Brubacher: Of 1996.

Mr Phillips: Maybe you can send the committee a copy of that. I don't remember that.

Mr Brubacher: We can do that. I think Minister Leach would have that.

Mr Phillips: I'm sure he would. I just don't have it, and I'd appreciate your sending it to us. That was, I gather, to the home builders' group?

Mr Brubacher: Yes. He committed that to us back when we met with him last August, I believe, and that was one of the first commitments he made. We'll get that to you.

Mr Phillips: Thank you very much.

We've been, I think all of us, disappointed in the housing starts, and I think you indicated that 1995 ended up around 35,000?

Mr Brubacher: It was 35,800.

Mr Phillips: Right. What's your judgement on the level that we should be at to sustain the demand, if you will? I've never been able to figure that number out.

Mr Brubacher: A sustainable amount we've determined would be somewhere in 60,000 to 65,000 units in Ontario, and we haven't reached that point since the 1980s. I think in 1994 we had 45,000 and in 1993 about 45,000 as well, and so we slipped back another 10,000 units in 1995. Optimistically, we're hoping for something in the 38,000 to 40,000 units for 1996. I think the Minister of Housing indicated 42,000.

Mr Phillips: Yes.

Mr Brubacher: CMHC is saying 45,000. We hope they're right.

Mr Phillips: Right. The lower interest rates, has that had any impact yet, or is it just simply too early?

Mr Brubacher: I think that lower interest rates are a very positive kind of a thing, but the biggest problem is consumer confidence. If someone doesn't have a job, you can be interest-free and it won't help people buy.

1510

Mr Phillips: Have you any research that would be helpful to us just in terms of the public's feeling right now about confidence? Has the housing industry done any surveys that would be useful for the committee?

Mr Brubacher: I think that generally the housing sales and housing starts tell the story right there. We can certainly check. I think there have been some studies done on a national basis as well, and we'll check that out for you.

Mr Phillips: I think that would be useful. You indicated that in the short term you think the opportunity may be in rental accommodation and then the longer term—I gather the home builders' group are also involved in rental-accommodation building.

Mr Brubacher: That's right.

Mr Phillips: You said somewhere in here that anyone who's seen the annual start figures for private rental apartments—again, we don't need them right now but it may be useful for the committee.

Mr Brubacher: All right. We can get that for you as well.

Mr Phillips: Which I gather would show—

Mr Brubacher: Private rental housing has not been done for the last number of years because the social housing was doing that. We felt the private market could do it much more effectively and much more cost-effectively and that's why it's been cut out, and we support that very much. But the thing now is to get the private sector to have enough confidence to get back in the market again and to be assured that there won't be rent controls slapped on in two or three years. That's something that's very important.

The other thing is the tax structure on apartments is higher than on single-family dwellings as well, and that needs to be reviewed. The whole development process and approvals process needs to be reviewed and the government is committed to doing that and we support that.

Mr Phillips: I'm sorry, you support the shift in property tax—

Mr Brubacher: The review of the whole tax structure on rental accommodation.

Mr Phillips: And a shift of the burden off the rental and on to residential?

Mr Brubacher: Well, shifting the burden so that it's equal with residential. Because it's a much higher rate on apartments than it is on single-family.

Mr Phillips: Yes, I just didn't know from your industry's perspective what you wanted done with that.

Mr Brubacher: We just wanted to make it so that it's cost-effective for a landlord to build an apartment building and charge the standard market rates for rental accommodation. It's not viable at this point, and that's why they're not building.

Mr Phillips: I may know the answer already to this, but just in terms of the cut in personal income tax—

Mr Brubacher: The 30%?

Mr Phillips: Yes. How does your industry feel about that and how quickly do you want it?

Mr Brubacher: We support that. We think that a tax cut will put dollars back into the economy again because people will spend that money. We also support user fees, and likely people will need some of those dollars to support the user fees that may happen in local municipalities for various things that will be happening as well. So I think it all works out fairly well. The money goes back into the economy, taxes are paid, and I think there will be more tax generated from that tax cut than what the tax cut is costing.

Mr Phillips: That's good.

Mr Silipo: Thanks very much for the presentation. I appreciate the chart with your submission listing the total housing starts over the last number of years. Could you give me any sense, looking back over the last couple of years, as to what proportion of that total would have constituted public housing, social housing?

Mr Brubacher: I'm not sure. Peter, do you have that number?

Interjection.

Mr Brubacher: About 10,000 to 15,000 units per year was the social housing part.

Mr Silipo: And that obviously is something that is—

Mr Brubacher: That will affect the total housing starts, yes.

Mr Silipo: It's nothing now, at this point, right?

Mr Brubacher: Exactly. There are still some being built but they're phasing—

Mr Silipo: Basically the ones that were under construction.

Mr Brubacher: That were approved, that's right.

Mr Silipo: You talked a lot in your presentation about consumer confidence. It's certainly something that I agree with you is a key ingredient in your industry. I just want to pursue that a little bit because I'm struck at the difference in how you approach this issue from that of the realtors' association, who came before us not through this committee process but the Bill 26 hearings. They also talked about the importance of consumer confidence, but they were, I guess, a lot more wary than you seem to be around what might happen as a result of some of the government's actions around increased taxation at the municipal level that might offset any gains that people would have from the provincial tax cut. As obviously two groups of people that are very much involved in the housing industry, you in building and them in selling on your behalf, I was just struck by the difference in that approach and I just want to put that to you and see what your reaction to that is.

Mr Brubacher: There probably will be some differences in the way municipalities charge for things that they do. However, I think most municipalities are pretty much under the gun to hold the line on taxes and do their own cutting as well. The other thing is, the user fee thing gives people a choice. They can choose to do things or not, and so it's a personal choice instead of a tax that everyone has to pay. So you pay for what you use.

Mr Silipo: Again, coming to this issue of consumer confidence, clearly, as you said, one of the key parts of that is people having a job and feeling that they're going to have that job tomorrow. One of the things that again I was struck by was, as we look at the government's own figures around what their actions will generate in the way of jobs, I'm not sure that I would feel a lot of comfort and that you should take a lot of comfort from what they're saying. While certainly they said in the election platform that they would create 750,000 jobs, their own figures over the next couple of years indicate that they're not going to be anywhere near those figures. Even when the Minister of Finance was here yesterday and we asked him about what the effect would be of the 30% tax cut, he talked very much about those impacts—ie, the jobs being created—not really being felt for at least a couple of years after the tax cuts get implemented.

Does that not concern you in terms of what is going to happen? Because it seems to me that what we're hearing—and again, we had another private economist here this morning, and what I took also from what he was saying was that there's going to continue to be a fair

amount of uncertainty over the next little while, which the government's actions may not necessarily help because of the reductions in jobs as well.

Mr Brubacher: Yes, I agree. I think 1996 is going to be a difficult year for everyone and a lot of lack of confidence, but I think the move is going in the right direction. It gives the business community a lot of confidence and I think that is being felt all the way through as well.

The fact is that we'd like to urge the government to act very quickly on some of the things that are going to unfortunately cut jobs, because if you've got a whole mass of people who aren't sure if they have a job or not, nobody's working effectively. If they make the cuts that need to be cut, then everyone else can get on with life. The fact is that a lot of restructuring will happen and the people who lose their jobs will actually be working in the private sector under contract or whatever and so the job loss of 13,000 or 15,000 that they talk about is probably not going to be nearly as severe as what it sounds like, in my opinion.

Mr Silipo: I hope you're right. I'm not sure that's the case, because I think it's more than just the public servants or the civil servants that we're talking about. We're also talking about the impact of the cuts across the various sectors and what that means in terms of jobs.

Mr Brubacher: I think the other thing is we need to work at wealth creation as well. Businesses have to be profitable and prosperous in order to generate tax dollars to support the programs that the government has in place. If that doesn't happen, then it just won't work.

For example, there's a big issue about the banks making all their money. I have a brother-in-law who works for one of the major banks, and at our Christmas dinner we were giving him a bit of a rough time because his bank had made \$1 billion. He said, "Well, the fact is that we paid \$1.2 billion in income taxes as well." That's the kind of thing that supports the programs that are in place. So if businesses are profitable, they will grow, they will hire, they will employ, and that's what makes the economy turn around and gives people confidence.

Mr Silipo: Again, I hope you're right, but the figures don't seem to bear out that that investment is happening when people are making big profits; it's just that they're making big profits.

Mr Brubacher: It's starting.

The Chair: Thank you very much. Before we get into a debate on the banks' profits, we'll move along.
1520

Mrs Marland: I have a couple of questions, and first of all I'd like to thank you for being here today. Certainly, as the former Housing critic for five years, we've had an ongoing relationship.

Can I just be clear about what you understood Minister Leach to have told you in your meeting in August about rent control?

Mr Brubacher: I think what he said at that point was that there would be a review. There is a committee that has been set up to study the whole thing. There would be a tenant protection act put into place which would ensure that tenants are not subject to unfair rent increases, get the health and safety of the apartment buildings in place, try to improve the supply of rental housing stock and

give builders confidence to go ahead and build, and the other part was to target the truly needy who need subsidies for rental accommodation. That committee has been working, and Ontario Home Builders' is on that committee and participating, and it's in process right now.

Mrs Marland: And in response to the question from Mr Phillips about decontrol, what is the statement made on the removal of rent control?

Mr Brubacher: The target was the end of 1996.

Mrs Marland: On new construction or all rental accommodation?

Mr Brubacher: I'm not sure. It was on new construction, but I'm not sure about existing.

Mrs Marland: The reason I wanted you to answer that question on the record is that it's a very finite but a very important line, and when we campaigned, we said we would remove rent controls on new construction because it was the only way we were going to increase the rental housing stock, which is of course terribly important to all tenants. But we always said we would protect existing tenants.

By developing a program where we would get confidence back in building new rental housing stock, we also were helping tenants because we were giving them a broader choice of accommodation in terms of location, and everybody wouldn't have to live in deteriorating rental housing stock in terms of conditions, or locations, for that matter.

I just felt in your answer to Mr Phillips it sounded like Mr Leach had said he was removing all rent controls by the end of 1996.

Mr Brubacher: It was on new construction, yes. The BC removed rent controls 10 years ago and rents have increased less in British Columbia than they have in Ontario with rent controls. The market forces will take care of that.

Mrs Marland: Yes, but we don't want to talk about BC because they're thinking of bringing rent controls back.

Just to ask you about the one aspect where you're urging the harmonization of GST and PST, you've said that you urge the government to make a decision one way or the other, and quickly. I hope that you're taking that urging and lobbying to the government which has the control to make that particular decision.

Mr Sarginson: Yes, we are, and we are encouraging it to happen and not to increase taxation on the consumer itself. Taxation throughout the whole housing industry must be reviewed. It contributes close to, I would say, \$40,000 to the cost of a house these days, and the more it can be reduced, the more we can encourage people to get the confidence up, the better we'll be. I am encouraged, as I said, by what the government has done to date, and we will work with you, if you desire, in a better, closer relationship to ensure that the economy, the confidence, the building industry gets back on track.

Mrs Marland: But you are working with the federal government.

Mr Sarginson: We are.

Mr Brubacher: We're concerned that any harmonization remains revenue-neutral for the housing industry. We feel we're already being overtaxed, and with a PST

on the service side of things and a broader tax base, we could be hit with a double taxation and increase the cost of housing for our consumers.

Mrs Marland: You must be excited about the building code amendments that we've been after for a number of years.

Mr Sarginson: Extremely excited.

Mr Wettlaufer: Laverne and Ron, thank you for coming. Being from Kitchener riding, I'm particularly alarmed at the housing start decrease in Kitchener from 1988 to 1995. We're now at 20% of what we were in 1988. We're at 50% of what we were in 1992. And albeit I know that there is going to be a lag in construction from an improvement in the economy, correct me if I'm wrong, Laverne, but I don't believe there was even a rental unit built in metropolitan Kitchener in 1995.

Mr Brubacher: I don't believe so, no.

Mr Wettlaufer: So that means there is a tremendous pent-up demand.

Mr Brubacher: Vacancy rates are dropping all over the province right now, and that shows up as a demand that is there.

Mr Wettlaufer: So it would be reasonable to expect that as the economy improved, it would very much improve your industry.

Mr Brubacher: That's right. We would like to get back into the rental housing market. It just is not viable at this point, with the regulation and so forth that's in place, to get something off the ground. So we're encouraged by the fact that it's being reviewed and there will be less regulation, streamlining the process and reviewing the whole tax structure on rental housing as well.

Mr Wettlaufer: Would we be correct in assuming that there would be a one- or two-year lag in housing construction as a result of an improvement in the economy?

Mr Brubacher: That's probably very likely. We hope it isn't that long, but that's the length of time it will probably take for builders to get enough confidence to proceed.

Mr Wettlaufer: And the consumer also.

Mr Brubacher: Consumers as well. That's true.

Mr Wettlaufer: And that in turn will create thousands of jobs in the construction industry.

Mr Brubacher: If you take a single-family dwelling, there are 2.8 person-years of employment for every house that's built. If you look at the housing starts from 1990 to 1995, where you're dropping by 30,000, that's almost 100,000 jobs that have been lost in the single-family dwelling only, and that goes off to all the supporting industries as well. So it's a major job creator.

Mr Ford: I was just going to have a short question there. Since 1988 to 1995, just a rough calculation, there are about 200,000 houses there, a shortage, and the offshoots of those houses create more jobs. So you said about 2.5 persons?

Mr Brubacher: Yes, 2.8 person-years of employment per house.

Mr Ford: For how many people?

Mr Brubacher: Well, 2.8 person-years of employment for each dwelling.

Mr Ford: Yes, each dwelling. That's a lot of work, 200,000 houses.

Mr Brubacher: Two hundred thousand times 2.8, that's right.

Mr Ford: That's right. I just wanted to check that for my own information. Very good, thank you.

The Chair: We thank Mr Brubacher for coming in and presenting your case to us, and the Ontario Home Builders' Association.

ONTARIO ASSOCIATION FOR COMMUNITY LIVING

The Chair: We move on to the Ontario Association for Community Living, Nancy Stone and Barbara Thornber. Welcome. We have half an hour to spend together.

Mrs Nancy Stone: We welcome the opportunity to come and speak to you. There are some familiar faces around the table, so it's interesting to see people we know.

I'm Nancy Stone. I'm the volunteer president of the Ontario Association for Community Living. This is Barbara Thornber, who is the executive director of the organization.

The Ontario Association for Community Living was formed more than 40 years ago by parents and others who were fighting for the rights of their sons and daughters and friends to attend school. The association's long history of advocacy on behalf of people with developmental disabilities continues to this day.

Although advocacy was also a primary activity at the local level in the early days, it was often coupled with development and provision of various community-based educational, vocational, residential and family support services.

OACL is a federation of 110 local associations with a combined membership of approximately 12,000 people, most of whom are people who have disabilities and their family members and friends, people who have experienced the consequences of disability labelling.

1530

The economic restructuring which is taking place in Ontario continues to cause a great deal of anxiety for our members and we are pleased to have the opportunity to present our issues directly to this committee.

Throughout last year's election campaign, there were repeated assurances, to us and many others, from the now Premier, Mr Harris, that services for people with disabilities would be protected. The Common Sense Revolution states specifically that, "Aid to seniors and the disabled will not be cut." The government has not kept this promise.

Direct cuts to people with disabilities have included a 2.5% cut to Ministry of Community and Social Services funding as of October 1, 1995, with an additional 2.5% still to come in April 1996. Transit supports have been cut, supports under employment equity legislation are gone, resources available through the Advocacy Commission are being eliminated, user fees are being introduced to the Ontario drug benefit plan, and the list goes on.

In addition to these constraints directly aimed at people with disabilities, other cuts are having an impact as well. The objective of our association is to help individuals find a place in the regular activities of their own com-

munities. Reduction or elimination of government support in such areas as housing, recreation, transportation and so forth means that people with disabilities are excluded from some participation in their community. As services in our communities struggle to deal with economic constraint, often the first thing they cut are the special supports needed by people with disabilities. As a result, people with disabilities are left with only special disability options, segregated housing and recreation, etc. The very notion of including people in the community becomes much more difficult.

A specific example of a government policy having a direct economic impact on people with disabilities can be found in changes under Bill 26 to pay equity legislation. As a result of the elimination of the proxy method under pay equity, MCSS refused to pay transfer payment agencies the 1% adjustments they had made to employees in 1995. Programs made these adjustments at the beginning of the year in accordance with instructions from the government. When the ministry reneged on this funding in December 1995, programs were suddenly faced with a substantial funding shortfall which many can only rectify through a reduction in direct service.

We ask that the government live up to the promise it made and stop cutting supports to persons with disabilities. This includes a commitment to consider the impact that all policy decisions have on the lives of people with disabilities.

OACL believes that the time has come to take decisive action to close the remaining institutions in Ontario. We believe that the government must ensure the closure of all schedule 1 and 2 facilities by the year 2000. As well, it must ensure that all necessary safeguards are in place for people returning to the community.

According to information from MCSS, there are \$244,838 million being spent annually to support schedule 1 facilities. From other sources we know that there are fewer than 2,500 individuals in those institutions. That means that there is about \$100,000 per person per year being spent to keep people in institutions. This is enough to provide excellent alternative supports in the community and leave additional resources to address the needs of many people who are now on waiting lists within those communities. We cannot afford to artificially prolong the already unnatural lifespan of schedule 1 facilities, nor can the taxpayer, nor can the community, nor the people in those institutions, nor those waiting for service in communities.

The other item is individual funding. Ontario at present has many layers of services and funding for people with disabilities. The province operates its own service through the institutional system, funds are allocated to community agencies through transfer payments, and individuals receive direct funding through special services at home and other arrangements. The government has a great deal of experience and expertise in funding and operating the first two systems, but relatively little experience with direct, individualized funding.

OACL believes that the time has now come to develop that expertise. There are many pressures and opportunities within our current systems. The decision to close all institutions in the province will mean that communities

will need to become much better at including people with disabilities. It will also mean that funding which is currently being used to exclude people can be reallocated to include people in their own communities. OACL believes that resources currently being used in institutions should be directed to communities and should be allocated to individuals through a direct funding system.

In conclusion, OACL appreciates very much the opportunity to present our recommendations to you this afternoon. We believe that there is good reason to be positive about the future for persons with disabilities in Ontario if we take the time to plan our steps very carefully. The closure of institutions in Ontario can provide current institutional residents a vastly improved quality of life within their own communities. Further, the redirection of resources to community supports offers the government the opportunity to live up to its promise to maintain service level for people with disabilities.

OACL offers its support to the government to work through these issues and to help design ways of providing individual funding to citizens with disabilities.

Mr Silipo: Let me start with a couple of things. First of all, thank you for being here and for reminding us of an important area that needs to continue to be addressed. I know that certainly in my last life I spent a good chunk of time—

Mrs Stone: Listening to us.

Mr Silipo: Yes, but also I hope doing some of the things that you've been telling us need to be done, particularly in terms of the move from institutional settings to community settings and more individualized funding. In fact, I think I remember one occasion being with Mrs Marland in Mississauga—

Mrs Marland: When you finally handed out a cheque.

Mr Silipo: Absolutely, and I was very happy to, and I hope that work is continuing, because I think it will be important for the government to keep moving in this area. This is for a lot of reasons. It makes sense for the benefit of the individuals, as you point out, but it also is a smarter way to spend the money.

The one thing I hope the government doesn't forget as it continues in this direction is that it does involve some investment of funds initially, because you just can't make the transition overnight. You can't simply close down the institutions and expect that the places are going to be there and the supports are going to be there in the community. It takes some investment in those resources. I'd be happy to hear your sense about what is happening on that front, you know, whether the ministry is continuing that policy which I think has been developed and to varying degrees supported by all three parties over the years.

I'm struck by a couple of particular points that you make in your presentation. The refusal by MCSS to pay the transfer payment agencies the 1% adjustment for pay equity troubles me because the government had—although I think they were very wrong in eliminating proxy pay equity under Bill 26, they at least had the decency to put an amendment in that said the people would have the right to the 3% that they had—at least there was a period of enforcement.

I find this action somewhat contradictory to that, because it seems to me now they're saying that the

transfer payment agencies have to come up with that money on their own as opposed to continuing to see that there is an obligation on the part of the government for even that limited period of time. Are you getting any sense on that from the ministry that they are, as a result of their amendment, looking at this again, or is this a pretty clear position they have given to your agencies and to others, I'm assuming?

Mrs Barbara Thornber: If I could respond to that, we've certainly made the government aware of it through the MCSS staff and the minister. Our associations are really receiving two different messages at exactly the same time. They have letters from the Pay Equity Commission insisting that they enforce the pay equity, the 1%, and they have letters dated January 15 from MCSS telling them that they will be unable to give them the 1%.

Sorry, I got that wrong. The Pay Equity Commission letter is January 15, and they've been advised by MCSS that they cannot be funded the 1%, so that means they have all of the 1995 year shortfall as well as, of course, most of them have now put this in their base salary budget and in the collective agreements, so they're now in the position of having to honour that.

As you probably know, most of the associations for community living are funded 90% or more by MCSS or other government sources. Many of them have only 1% or 2% of their total budget that they achieve by fundraising in the community. So this makes it very, very difficult for them, and the only way they can react to such a decision is to cut services to the individuals they support.

1540

Mr Silipo: I think for those reasons and certainly also because, as I said, the government made an amendment to Bill 26 which indicated, I think, support for at least the rights of workers affected by the cuts to proxy pay equity to be able to enforce at least the 3%, it seems to me to be contradictory that the government wouldn't be prepared to fulfil its obligations as the main funder, as you say, of your agencies. I hope that's something we can pursue.

The other issue that strikes me, beyond the overall cuts and your pointing out to us that that is in fact reneging on the promise the government made to not cut funding for people with disabilities, is also when we look at just the area of social assistance. It's one of the additional inequities that we see there.

On the one hand the government, after the initial mishap, corrected itself and reinstated cuts to people with disabilities. It still allows, as far as I know—because I don't think they've changed it—cuts even on the social assistance side, where we are talking about, say, a situation—and I've had constituents coming to my office with exactly this, so it's a real example—a single mom with a severely disabled child. The child's benefit hasn't been cut, but the mother's benefit has been cut. In a situation like that the mother really has no choice but to spend most of her time with the child, so the family income that goes to support that child clearly has been cut. Have you had a chance to put those issues in front of the government and the minister?

Mrs Stone: The real reality of what it costs to have a disabled person in your family has never been investi-

gated to the degree I think it should have been. There are hidden costs that nobody ever takes into account. My son is now 25 and he lives in an apartment program in St Catharines, but when he was at home and he was 18, to get a babysitter for him—you can't pay \$2.50 an hour for a babysitter for an 18-year-old and you cannot accept a 12-year-old who lives next door. So that very thing, just a small thing, but to give you an example of the kind of costs, you end up paying minimum wage for a babysitter for an evening to go to a movie, so you don't go to movies the way you did.

I think the reality of the cuts to that single mom with a disabled child has ramifications that I can't extend to you. If you have a person who needs a diaper every few hours, they're a dollar each now, so if you're talking five or six diapers a day, that's like somebody who smokes, having that sense. When you account that over a year, it's a lot of money and that's not a luxury, that's a necessity, especially with adults.

There are all kinds of elements there that you really—I agree with you wholeheartedly and there doesn't seem to have been a lot, other than in individual cases, where there have been some exceptions made, I gather. But those are people who are loud. What about all the people who can't speak English as well or who have difficulty, who don't feel comfortable in situations like this where they have to go and speak and yell and scream about what they need? Those are the people who worry me very much, because they don't fight for what they deserve.

Mrs Marland: I was quite sure that of any deputations that would be here in the next two weeks, I knew we could count on Nancy and Barb. The best way to conduct these committee hearings is to try not to be too partisan and confrontational with our colleagues on the other side of the table. But having said that, as the spokesperson for people with disabilities for the last six or seven years, it just sticks in my craw to hear the former Minister of Community and Social Services criticizing what the present government has done when I know the battles we had with the cutbacks by both the previous two governments in the last 10 years, things like nine months even to get a response to a letter from the former minister's office and the very fact that we had to bring 5,000 people to the front steps of this building in the fall of 1994 in support of my motion.

I agree with you so much, Nancy, when you say that it's those people you have to speak on behalf of, we have to speak on behalf of, who can't speak for themselves, who give you even greater concern and greater heartbreak. For all the years, we've talked about there being too many layers of government and too many ministries involved, the fact that if you move from Hamilton-Wentworth into Peel or Durham, the money didn't flow with the individual who was eligible for that funding as a disabled person. We had all this bureaucratic red tape we couldn't get through. All of this speaks to your last paragraph where you say we have to take the time to plan our steps carefully.

What you're saying is so true. It isn't that the need isn't recognized. I will tell you that our government is committed to prioritizing in terms of human need on

behalf of the people for whom you advocate and for whom I have advocated, because the money that is being spent often is lost. When you give some of the examples that you've given, a lot of it's lost along the way before it finally trickles to the recipient who needs it and needs the service. It's not just the individual. The example you give: I know about families and what it is they have to cope with and where money is needed to help them survive on a daily basis. It's not even that it's a lot of money; it's just that it has to be there for these people.

I'm glad that the former minister, the most recent Minister of Community and Social Services, now is in his constituency office advocating on behalf of the people he sees have difficulty, because those were the people we had to bring to Queen's Park to make a major demonstration of a concern that is out there and is very real. I think it's wonderful you're here with constructive suggestions. I want to give you the commitment that our government knows what the priorities have to be, and we would not be party to some of the changes the two previous governments have made.

Mr Silipo: So that's why you're cutting—

The Chair: Ms Bassett.

Ms Bassett: Mr Silipo, I've only got a second. Let me—

Mr Silipo: I'd actually like to extend the time to allow a response to that filibuster.

The Chair: I didn't hear a question, actually. Was there?

Mrs Marland: No. There doesn't have to be.

Mr Silipo: You just wanted to make a speech. You didn't want to hear from them, Margaret.

Mrs Marland: I hear them better than you do.

Mr Silipo: You just contradicted everything that your minister is doing, everything that your government is doing; you completely contradict it.

The Chair: Excuse me, Mr Silipo.

Mr Silipo: I'm sorry, Mr Chair, but when you have a situation like that where a member is completely—

Mrs Marland: On a point of order, Mr Chair: I think Ms Bassett has the floor.

The Chair: Ms Bassett has the floor.

Mr Silipo: Absolutely.

Ms Bassett: I just want to say, as you know, Nancy, I was part of the association. I'm committed, as Margaret is and I'm sure as my colleagues on the other side are. What I want to ask you is, are there any changes you think we can make to make sure the money goes to the people in real need, such as your son would have been and the many people like that who I see and Mr Silipo is seeing, and then some that are lesser, that maybe we could be giving another kind of help to, just because dollars are short? Is there any way you could work with us to come up with divvying up? I just have a feeling that different people need different amounts because there's such a range in the developmentally disabled sector.

Mrs Stone: There's no question that in our minds we feel we're approaching this in a positive way, because it's really important that we understand, as everybody in the province has to, that there are going to be cutbacks and that we're going to be hit by them, even just through a

ripple effect, whether we like it or not. We're prepared to look at that. But we also feel there's a great expenditure out there in institutional settings, and they're all over the province. First of all, they're not conducive to the kind of life I would want for my son or your son or anybody's sons or daughters. They're not the way people were meant to live. That's number one.

1550

They cost an exorbitant amount of money, we know at least \$100,000 per person in institutions. We also know that we can do a much better job with a better quality of life in community if those dollars could be committed directly back to community, and I mean all the dollars. I'm not talking about property and capital and all that kind of thing; I'm talking about operating costs. If that \$100,000 per person could come back to community, there are many families who could be helped in a way that would support them where the support was really needed. The individualized funding aspect of that means that what we're planning on doing and what we're advocating for is that instead of looking at a person and throwing a whole bunch of dollars at the family, we first examine exactly what those people really need.

Oftentimes, I sat on a waiting list for residential. I really didn't need residential; I needed support and maybe just a little bit of support. You start off needing a little bit to get you going and then as the problem gets larger or the person gets older and you can't handle them as well or whatever, then there may be an increase of what you need for that support. In the beginning, many people under special services at home receive very little amounts of money and yet it does assist them. It enables them to keep their young people at home.

If we could do those two things, close the institutions and look at a different funding mechanism that wouldn't waste dollars, that would put the dollars directly into the hands—I don't want to see a whole bunch of money spent on administration and a whole bunch of things that tie up money. I want that money to go directly to families that can really do the most and get the most bang for the dollar, because that's what builds a strong community: enabling people to be independent.

I've been very fortunate, because I'm a very strong person, that my family was able to cope a very long time. But for my own son's sake, it was time for him to leave home. He did and the support he's getting is wonderful. But there are cutbacks. Instead of living three to an apartment, there are now four. There are going to be changes and I guess we're all prepared to accept a little bit of that, but I don't want to see Jim suffer for that as well. That's why we come with those two points. I think they're very important because they enable the government to perhaps not save money, but redirect money in a more positive way.

Mrs Thornber: If I could just add, the other piece of what Nancy has said is the very important area of portability. By attaching the money to a person, not to a program, when that person moves to another part of Ontario that money can go with that person so they don't have to go from having the support that it may be determined they need and they go to another area and it's cut back, so portability is also very important.

Ms Castrilli: Ms Stone and Ms Thornber, I want to thank you for coming and for making such a passionate input into our deliberations. I have to tell you at first hand that I share your concern. In my own immediate family there is an instance of disability. I know what it's like to grow up with someone who is disabled and the lifelong care they need.

I don't want this to appear partisan, because it isn't. I want to tell the members opposite that the reality is that there was a promise made by the government and I can point to the exact page in the CSR where it says, "Aid for the disabled will not be cut." The reality is the record speaks for itself: Aid for the disabled has been cut.

I'd like to enlarge a little bit on the points we've been discussing here. I thought your response was very reasoned. You came here with an economic argument that said: "So much money is being invested in the area. Let's use it better. Let's not put it in these institutions. Let's take that \$200 million and more and use it more wisely." I wonder if you could enlarge on that. How could it be done? I know you said giving it specifically to individuals. Has your organization done any work in that area that could be of assistance?

Mrs Stone: Yes, for a long time.

Ms Castrilli: Could you share some of that with us?

Mrs Stone: I think it goes back to—I can't remember which government. The five-year plan was established by MCSS many years ago, where they started to scale down in institutions and OACL has been involved ever since.

Because of our organizations out there in communities—we have associations in many communities, 110 communities in the province—the supports are already in place. They just need expansion and some refinement and sort of looking at it again. Yes, we're involved. We work with MCSS continually. The minister has been very genuine and receiving and asked for input and we've been doing that. Yes, we're involved a little bit in the planning and the establishment of something different. We've received assurance that the plan that was in place is continuing, so we're assuming; we'd just like to see it speed up just a titch.

Ms Castrilli: You're confident that you have the government's ear on this?

Mrs Stone: I think so, yes. Certainly at this point in time we have been given assurances that nothing has changed since the change of government.

Ms Castrilli: Your solution is to give it to communities as opposed to the institutions?

Mrs Stone: Yes. I don't think anybody was meant to live in an institution. You have to visit some in the province of Ontario. Huronia is a good example. It's at least 100 years old, I believe, very old. People were not meant to live that way.

Ms Castrilli: Just to be very clear, it's your impression that you have assurances from the government that this is a plan they would follow?

Mrs Stone: Yes. Now, their time line may be very different than what I would like, but they've been certainly given assurances that it's continuing.

Ms Castrilli: What do you think that time line is?

Mrs Stone: We're shooting for the year 2000. I think the plan that's been inherited had a magic number of 2005 or something like that.

Ms Castrilli: A long time for a disabled person.

Mr Kwinter: In your advocacy on behalf of the disabled, have you made representations to the ministry on the impact of things that aren't necessarily associated with the disabled? To give you an example, and just by coincidence, I met with a People First chapter in North York last night, and as I say it was just a coincidence.

Mrs Stone: Good timing.

Mr Kwinter: It happens to be very good timing. For those of you who don't know what People First is, it's a group of disabled people who are literally on their own. They get support, but they can function, albeit at different levels. There were 22 people there last night ranging in age, I would say, from maybe 17 to 60.

One of their concerns, and the reason they asked me to address them last night, was not just what is happening as a result of the Common Sense Revolution but for the last number of years they have found that instead of getting increased support, they're getting decreased support. Even more importantly right now—these are people who function. They don't function at the level you and I might think we'd like to function at, but they function. As a matter of fact, the president is a school crossing guard and he does his job and is able to do it, and others have other responsibilities.

Their concern is that, for example, when funding is cut to municipalities so that they have to cut back on transit, it inhibits their ability to go out and do their work because that particular route they used to use isn't available to them. It takes them a while to get routinized so that they know what they're doing and suddenly they're lost. They can't figure out quite what the alternative solution is and that impacts on them.

They gave me a whole range of problems they were facing. It has to do with their disability but the repercussions are not part of their disability. In other words, it's something that people don't address. They don't realize that for every action there's a reaction, and you may have a reaction with some group that you didn't even think about. I think that is a problem, and it's certainly a great problem to them.

So I'm fully supportive of your plan to get individual funding so that at least they have some flexibility in what they do. I'm just wondering what your reaction to that was.

1600

Mrs Stone: We work with People First as closely as humanly possible. We try to act as a support mechanism, organization to organization as well as individual to individual. So we're very aware. We share our concerns very much, and there are very few times that you won't get a document from People First that doesn't have some things in it that reflect some of our concerns and ours will have things that reflect their concerns. But of course it reflects; transportation is a good example of reflecting on all kinds of community people that you just don't envision will happen.

Subsidized housing was another big one. A lot of these people have very low incomes. A crossing guard only gets paid part-time, so his income is probably not great. Therefore, he has to look for the kind of housing he can afford to have, and with a cut to subsidized housing, that

reduces the chances of finding something that is affordable.

Everything has an impact on everybody. I think we have to recognize that. If you start to bring in user fees, a lot of those people take medication and that's going to be an effect on their income, and their income is not big. I think we always see ourselves at the bottom of the pot, unfortunately. Persons with developmental disabilities tend to be the ones who are living in a poorer range and it's just that much more difficult.

The Chair: That's a very passionate subject. Thank you very much for coming and sharing it with us.

Mrs Stone: I have no trouble being passionate about this.

The Chair: We really appreciate your attendance.

FRIENDS OF ONTARIO UNIVERSITIES

The Chair: We now have Friends of Ontario Universities, Mr Ian Morrison.

Mr Ian Morrison: My name is Ian Morrison. I'm with Friends of Ontario Universities. I'm also a constituent of Ms Bassett, who I notice is sitting in on the committee today. I'd like to introduce my colleague Pamela Jeffery. I want to thank you for hearing us. Pamela will begin and I'll conclude a brief presentation and we would welcome dialogue.

Ms Pamela Jeffery: Mr Chairman and committee members, I'd like to thank you for the opportunity to be here this afternoon.

Friends of Ontario Universities is a province-wide association of 18,100 individuals with a shared goal of strengthening the position of higher education in Ontario. Our supporters care very deeply about the future of higher education in this province, and they have each demonstrated that concern in a tangible way. They contribute regularly from their own pockets to support a quality system of higher education in this province.

Friends has developed, since 1991, with active support from Ontario's university alumni associations, from 17 universities and from many individuals.

Our mission is to raise the share of mind for higher education at Queen's Park. Friends is working to attain this goal through a sustained, riding-based program of education and communication from constituents to MPPs. On average, Friends has 135 members in each of the province's electoral districts.

Friends sees its role as one of facilitating communication, not just from our members to government but also to university leadership, with the goal of enhancing universities' responsiveness to changing societal needs. However, we are here today to offer advice to your committee which we ask you to consider and pass along to the Minister of Finance in advance of the next provincial budget.

But first some background information.

Over the past 15 years, while enrolment has increased by 50%, Ontario's universities have seen their resources shrink substantially in comparison with other public services and with university funding in other jurisdictions.

Since 1980, under three successive governments, the share of Ontario government spending has fallen from 6% to 4% for Ontario universities.

On a per-client-served basis, the index of grants to Ontario's universities since 1980 falls far below grants to other major societal institutions.

Ontario universities' per-student operating expenditures have been the lowest in any Canadian jurisdiction: 8% below Quebec's and 9% below Alberta's.

Government grants to Ontario's universities are 35% lower than government grants to public universities in the 11 largest American states.

All of these calculations precede the November 1995 economic statement. Now the projected situation is much more serious for our universities' future. In Canadian terms, our university system is funded dead last.

Since universities are the primary developers of intellectual capital in an information economy, this pattern of neglect will place Ontario in a position of growing competitive disadvantage in the future unless corrective action is taken. However, Friends is highly conscious of the difficult fiscal position facing the Ontario government. In the short term, therefore, we recognize that the government has limited capacity to redress the disadvantage we have described.

We also recognize that the government has a mandate from Ontarians to reduce the higher education envelope by \$400 million per annum, the cut announced by the Minister of Finance in November. This cut, which was called for in the Common Sense Revolution, is very substantial. It represents a 15% reduction in public support for higher education, a cut of some \$1,000 per university student.

Mr Morrison: What we want to put before the committee today is some heartfelt advice on the government's future directions for higher education. As you may know, universities have already tightened their belts over the past decade and they are now stretched to the limit.

Our counsel to the government, through this committee, is not to cut deeper than the \$400 million called for in the Common Sense Revolution. We welcome the government's plan to enter into a dialogue with university leaders and the community about the role of higher education in an information economy. We welcome the debate about what society expects from universities. We believe this debate must take place before the government takes any action that could cripple our universities, even if that action were inadvertent, and the essential services these universities would offer to the future leadership of this province.

We believe that our universities can still deliver a quality product and cope with the pain of a huge \$400-million cut that the government has announced, provided, and only provided, the government moves right away to partially deregulate tuition.

In an environment where public funds are in very short supply, universities, in our view, should be free to increase other sources of revenue, including fees, in order to sustain their capacity to do their job. Friends supports the idea that university tuition fees should be partially deregulated. We see the November 1995 announcement by the Minister of Finance as a positive first step, but substantial tuition increases are only acceptable if the government moves simultaneously to implement the promised "equal opportunity education fund."

Friends strongly supports reforming student loans to introduce an income-contingent repayment plan system. To be effective, we believe that this plan must be integrated with Canada's income tax system, thereby linking repayment directly with a graduate's capacity to repay. This requires collaboration with the federal government. As student loan reform must accompany any substantial increases to tuition fees, we recommend that federal-provincial negotiations begin immediately to implement this election promise. Of all the government's announced plans for the university sector, this policy initiative is the most complicated to implement. This is an added reason for getting on with the task right away.

1610 We were therefore highly encouraged by the following statements of the Minister of Finance in the November economic statement, and I'm quoting the minister:

"Ontario will seek the federal government's assistance to develop a student aid plan in which repayments reflect income after graduation.

"The Minister of Education and Training will release a discussion paper in the new year on future goals for Ontario's colleges and universities. The paper will address issues such as student and provincial shares of post-secondary funding, accessibility, and program rationalization and cooperation."

To sum up our position and our advice: While the government can justly claim that the cuts announced in November had been approved by Ontario voters through the election, the government has no mandate, in our view, for any further cuts. Enough is enough. Ontario's universities are making an essential and cost-effective contribution. Let them do their job.

Second, while the government's promise to work on an income-contingent loan program has merit, this work needs to proceed on a fast track, a fast pace, to bring the program into reality. The long-term affordability and availability of a university education depends on implementation of this promise.

Finally, the government has now met the first of its commitments as stated in the Common Sense Revolution regarding higher education: the \$400-million cut. Now is the time to implement the two other key higher-education commitments in order to enable our universities to get on with the job of providing quality higher education for Ontario's future.

That's our brief statement as promised, and we're open for dialogue.

Mr Spina: Thank you for a great presentation. Pamela, it's good to see you again. The last time we were at a local community group of Friends. I'm pleased to hear the tone of your presentation and I think a lot of the things we talked about back then you're starting to see come to fruition.

I wondered if you had a sense of rationalization from some of the universities, that they would be merging, combining programs, paring programs down to reduce a lot of the duplication. I wasn't sure if either you or Ian were in a position to be able to make comments.

Mr Morrison: We'll make comments and we'll find out how we did. As I think Pam mentioned at the outset, when we finally incorporated our organization about two

or three years ago, we had a long debate about the goals. One of the goals we made sure we inserted was to provide advice from alumni to universities about how they should adapt themselves to the changing environment. There's no problem speaking out like this. It's just that we're accountable to a lot of people, so we have to be careful.

Mr Spina: We've been there.

Mr Morrison: Clearly, in an environment where universities are facing very substantial cuts, I think you understand that the cuts we referred to—Pamela mentioned \$1,000 per student, just in rough terms, is what was required. The universities thus far have been permitted to raise back, and I'm speaking in broad-brush terms, only a third of that in any freedom to increase fees. They're dealing with cuts that are really substantial, in common with the colleges. So clearly, mergers are going to have to be on the table; I don't think necessarily mergers of institutions but mergers and collapsing of programs.

The management of the university system is going to have to make hard choices, and if the university system is to survive and be more businesslike, entrepreneurial, lean, mean—all of that jargon, vocabulary—it's got to have the tools to do it. We believe that we will see a lot of change in that regard as universities make hard choices and we don't see that as all bad. What we really are concerned about is the capacity to maintain the quality of the programs they offer, and the accessibility to students, which brings back the question of the lending of resources to students according to their capacity to repay.

Ms Jeffery: Friends, as we mentioned, operates as a group to represent alumni who care enough about Ontario universities to involve themselves in the process. Because they care enough, we listen to what they tell us, and they tell us they would like to see changes occur in the university system, and we're in the position to be able to communicate with the universities their aspirations and their hopes for the future within the context of wanting to ensure quality education.

Mr Morrison: For any members of the committee who might wonder at this great familiarity with Mr Spina, it just happens that in his constituency we tried an experiment of a constituency meeting. We're going to have one in Frances Lankin's riding in the near future, and we hope she will participate.

Ms Jeffery: You'll be hearing from us.

Ms Bassett: First of all, thanks for your presentation. Since U of T is in my riding, and I was chair of the board at Ryerson, I have some familiarity with getting funds, because even a few years ago we were facing these problems. Business has gone hand-in-hand at the U of T certainly, and Ryerson, to support programs that would have been impossible without the support of business. Do you see universities as a whole moving in that direction more, and are you encouraging it?

Mr Morrison: Thanks for the opportunity. I'd like to answer with an anecdote. A quick answer would be yes. In certain circles one is told that you first think, "Can you say yes or no?" and only if you can't say one or the other do you say any more, but not here.

I'd like to suggest that what I think universities are becoming very skilled at—and the president of the University of Toronto is perhaps not rivalled in his capacity to make these things happen—is to turn what used to be called fund-raising, something of a charitable nature, into a real value added business proposition.

I'm aware that the university in your constituency, U of T, was involved with something substantial with Latin America not too long ago. The net result was a lot of money coming to the University of Toronto, but the opportunities, the investments that a lot of Canadian businesses were making were being made in the expectation of some benefit in their export sales to the Americas. That's the kind of win-win situation that universities have to develop in an entrepreneurial age.

Ms Bassett: Are you pushing them to do that? My experience was—nobody matches Rob Prichard, but beyond that, there are some that have absolutely a negative approach to doing that kind of thing, which in my view you have to do.

Mr Morrison: Maybe what we have is a difference of opinion, but it may be a matter of timing, because I think in 1996 there isn't a university in this province that isn't working very hard in that respect. I don't think they need a lot of pushing, but to the extent they do, their alumni want them to diversify their sources of support, and at the same time, it's increasing the constituency of support for the university and building other partners in society who feel they have a stake in the success of the university.

1620

Ms Castrilli: Thank you, Mr Morrison, Ms Jeffery. Like Mrs Bassett, I have a university in my riding, York University, and in my former life I was chair of the governing council of the University of Toronto. I'm familiar with the excellent work you do. I always used to ask myself, how can they be so altruistic and give so much of their time and resources to this issue? But it is a very important issue.

Your presentation, as always, is reasoned and based on a good foundation. You speak of the importance of intellectual capital and the role universities play in that, and I would add that the universities and colleges also could be a major focus for economic recovery, and should be. That certainly is something I care very much about.

I wonder if you've had any discussions with the minister as to the priorities he has and the vision he has for universities in the province?

Mr Morrison: Our discussion with the minister would be through a riding coordinator in Halton—I can't remember the minister's constituency right now.

Ms Castrilli: I can't either.

Mr Morrison: But I do very much remember our riding coordinator, who has been in touch with him. Our tendency is to deal with members of the Legislature not in this way, but through a local contact. Although we haven't had any substantive assurance from John Snobelen on that subject, what I took to be a very positive sign was this announcement of the government's intention to set up this process for dialogue about the future priorities of the universities. We intend to be an active part of that process at the grass roots as well as through our steering committee.

Ms Castrilli: Does it trouble you that the process that has been set up may not achieve the results the university community may want? The analysis is this: that first you have a series of cuts for universities and colleges which will be quite dramatic, then you have a white paper, and then you have consultation. Do you think that is an appropriate process to establish priorities, or have the priorities already been set?

Ms Jeffery: We think that's an important process in so far as consultation is taking place. However, we would like to see the income-contingent student loan program implementation move at a faster pace to allow for the kind of quality education and access we've talked about, and not put that off.

Ms Castrilli: Again there, you have some massive increases in tuition, 10% to 20%, as you know, and there's no serious discussion of what elements any new additional form of support for students will take. It seems to us on this side of the House that they're putting the cart before the horse, that all the cuts are being made and then, subsequent to that, there are some decisions as to what you do in terms of priorities for universities and for students.

Ms Jeffery: The consultative process is one we like to see, but we do share a concern in terms of the first step being undertaken, the cuts that have been announced, without the other two very important steps, the partial deregulation and the implementation of the income-contingent student loan program.

Ms Castrilli: Have you had any discussions with the minister, or through whoever your contact is, with respect to further cuts? I know you're concerned about additional cuts, as are we. Any indication of whether there are going to be any more or whether this is an end? Have they ruled it out?

Mr Morrison: This is like reading tea leaves, but one has to be candid with a legislative committee.

Ms Castrilli: I know you always to be candid.

Mr Morrison: The current reading I have is that the government has heard the message from the university community, has recognized that the university community has not kicked and screamed but instead has said, "We are willing to bear a fair share, notwithstanding what has happened in the past." The government appears to recognize—I stress "appears"—the great importance of universities in this province for economic as well as other reasons. The word we have, but it is very much a tea leaf type of word, is that while there are discussions about cuts beyond the Common Sense Revolution benchmark, no decisions have been taken in that regard.

We have detected an awareness on the part of the public service, the advisers to the government, that some of the things Pamela said at the outset, that universities have been trimming their sails for quite some time, have happened. In other words, on a per-client basis the resources allocated to universities have not risen the way they have in other major social partners. We have some hope, but vigilance is where we're at at the moment, because we are aware of the fiscal exigencies and we're aware that unintended actions could happen that could have very grave impact on the future of higher education.

Mr Silipo: Thanks very much for the presentation. I wonder if you can share with us any observations you may have, because obviously what we get so far is anecdotal in terms of what the impact of the \$400 million in cuts are or are likely to be. In the Common Sense Revolution the government states its belief that a lot of that money can be found through streamlining of administration and such things as that. But it is my sense that we are also seeing some pretty substantive changes happening and likely to happen that impact directly on the quality of the teaching and the work that goes on in universities. What sense do you have of what is going on?

Ms Jeffery: Our sense is that the effects are quite profound. One example that comes to mind is the overcrowded classrooms and the sense we have that a higher number of students is being taught by a single instructor.

Mr Morrison: And it goes into library acquisitions not being kept up. It's a very, very serious situation. It's true that a reading of the Common Sense Revolution would suggest that somehow there was \$400 million of—what will I call it?—fat in the higher education system. We know that's not the case, and I suspect the government knows it is not the case. Certainly the university administrations know it is not the case. Notwithstanding all of that, in tough times, on a basis of fairness, every sector should do its piece. We understand that there have to be the cuts. But no one should kid themselves that the cuts, Mr Silipo, will be to some type of unimportant ancillary function that has no bearing on teaching. There is no doubt that the quality of higher education is going to be affected by what is going on.

Mr Silipo: That has certainly been my sense, but I was interested in yours, because at this table at least, your voice is going to carry more weight than mine. Hopefully, people are listening to that.

Mr Morrison: It's not going to hurt just the paper-clip manufacturers.

Mr Silipo: Unless I misunderstood your position, you support further increases in tuition fees, but you also put a caveat on that to say it should only happen, would only be acceptable, if the government also puts in place its promised "equal opportunity education plan." That's the quote you have. Have you done any work and can you share any information with us about where you think that balance can be struck?

Of course, the concern is accessibility to university, and I don't have to tell you that many organizations, whether it's student organizations or others, would argue that the level of tuition fees being charged now is prohibitive in terms of people from lower- and maybe even middle-income backgrounds being able to go to university. At what point do we cross a line so that it isn't any longer possible for people from lower-income backgrounds to reasonably be able to put themselves through university or college?

Ms Jeffery: Our supporters, who are alumni of universities in Ontario, want to ensure that students are able to continue to go on to higher education, but at the same time, they want to ensure that students are going to be able to finance their education in such a way that it's not going to be, as you are saying, "prohibitive." In terms

of that sawoff between a partial deregulation environment and the kind of income-contingent student loan program that is implemented, I don't think it's possible at this time for us to say exactly where that would be. Our sense is that we need to have the universities accessible; alumni want to see that. But you've raised a very important question, which is, where is that point?

Mr Morrison: But I am familiar with research which is comparing us with other jurisdictions. If we are going to compare us with other jurisdictions on the global revenue side—and you said we're dead last at one point—we have to look at tuition. Ontario's tuition is not the highest in the country at the moment; it is higher than some. Ontario's tuition is lower in many cases than those public universities that you referred to in—Pam said 11 large US states; it's the 11 states in the American system that are as big as Ontario. So there would appear to be some room. But it is a sliding scale, and it is not something we would advocate; it is just, rather, that the fiscal situation and the government's commitment and mandate suggest that something has to change.

We insist that what changes should not be that only the quality of education will go down, because in the long run everyone suffers in that case. So the income-contingent plan—it's not an ideal situation, there are problems with it, there are questions of cost—does provide for us, conceptually, a way that someone who has to mortgage her future will be asked to repay according to the capacity to repay. We would like the government to get on with that in cooperation with the government of Canada.

1630

Mr Silipo: I agree that work needs to continue.

The Chair: Thank you very much. We appreciate your presentation to the standing committee and we'll take your remarks into consideration.

INCOME MAINTENANCE GROUP

The Chair: The next presentation is by the Income Maintenance Group: Mr Harry Beatty, Mr Scott Seiler and Ms Marilyn Ferrel. Welcome.

Mr Scott Seiler: My name is Scott Seiler and I'm with the Income Maintenance Group. The Income Maintenance Group has been in existence since 1978 and has dealt with disability-related issues around income, employment and, sometimes, health-related issues for that amount of time. We're here to talk to you today about some of the things and initiatives that the government is doing and reiterate in some way some of the things we've said at Bill 26 hearings and other places as well, as well as reiterate some of the things that we've been saying for the entire time the Income Maintenance Group has been in existence.

For instance, one of the things that we have great concern about right now is the whole issue of the drug program's user fees for the Ontario drug benefit plan. We believe this will restrict the ability for people with disabilities to be able to acquire the drugs that they need to keep in control the disabilities they may have or to help them cope and survive in the community. It's very important that people get these medications. We also know that in many jurisdictions that have brought in user

fees connected with the drug programs people have made choices, and the choices are, "Do I eat or do I take the drugs?" This is even more crucial for people who are on GWA, the general welfare assistance system, because they have been cut back the 21.6% as well, so they have even less income to be able to spend for the \$2 per prescription.

We also know that there are approximately 35,000 people who are on GWA in this province who are waiting for adjudication on to a disability pension, and those people are greatly at risk. Something that may not be being thought of with the user fees is that if you put a user fee and people do not take the medications that they are supposed to take and they end up getting ill, it will cost you 10 or 15 times the kind of cost it would be to provide a prescription to provide the kinds of help that somebody would need in a hospital setting or in a clinical type of a setting, whether that's a hospital for psychiatric disabilities or a general hospital where somebody has to go in for kidney dialysis too early because they don't have enough money to buy the drugs or they have complications because they don't have the money to buy medications that they need.

Also, I think it's very, very important to realize that we are in a time when there are a tremendous number of people with disabilities on social assistance. Part of the reason for that is the economy, and many other different issues are involved there as well. But what we're seeing is a diminishment of the ability for social assistance recipients who have disabilities to be able to go out there and get training and get work. One of the reasons for that is that people with disabilities have no law now, for instance, to help to protect them—and Marilyn will be talking about that in more depth—which was the Employment Equity Act.

We also have problems around the division of things like assistive devices for people with disabilities to get work through what they call the VRS, which is vocational rehabilitation services. What they've done is they've taken that program and they've divided it in half. They put one half in the Ministry of Citizenship and left one half in Community and Social Services, where it started. All that's done is double the administration. It has not made more money available for people with disabilities for accommodations.

Also, we have a tremendous issue here with definition of "disability." I want it on the public record here in this committee—and I've put it on the public record in other committees, other places—that I believe that we will lose approximately 115,000 to 120,000 people from the disability rolls with what the government is planning on doing with disability definition. They are going to chop that many people out of the system. They almost got away with it once and we stopped them, and they are going to try it again this spring. I want that on the record, because it will mean that most of the people in what we call PUE, which is permanently unemployable, will most likely be off the system. The current estimate is about 115,000 people, approximately.

If that's the case, then we will see people being dumped on to the general welfare system, into the municipal services, and those people will not be able to afford where they're living in many cases and will end up

on the street. We've got a tremendous problem with people living on the street today. We've had to call out the armed forces and open the Moss Park Armoury for the first time since the Great Depression. I think that's a sad state of affairs for this province and for this city. I'll be very honest with you: A tremendous number of those people who are out there on that street are people with disabilities. We need to be a little bit more thoughtful in how we decide on these things and look a little bit closer at the effects, because people have died. Three people have died this month and there will be a whole lot more. **1640**

I think some of the cuts around education—for instance, to the colleges and universities—are extremely detrimental to getting people with disabilities out into the labour force. If you do that, it's like giving a person something and then taking it back very, very quickly, before they ever get a real benefit out of it. We have only been getting proper services in the community college and university systems for approximately 10 to 12 years now. So the people who have gone through college and university in the last 10 to 12 years are the first people, for the most part—now, there were some exceptions to the rule there prior to that, but for the most part most people with disabilities have been educated in college and university in the last 10 years. That is in great jeopardy with the MUSH cuts that are being done through Bill 26. If those cuts go through, it will be the access services for people with disabilities and other disadvantaged people that will suffer.

I'm going to turn it over to Marilyn and she's going to be able to talk in some more detail about some of the people who fall through the cracks in the cuts.

Ms Marilyn Ferrel: I'd like to talk on a personal level about what it means to me not to be defined as disabled. I feel that with the cuts I will no longer be defined as disabled, but I won't be defined as employable either. What am I to do? Commit suicide?

The Employment Equity Act gave me hope. It gave me hope that I would have accommodation. It gave me hope that job descriptions and the amount of time I spent on a job could be flexible according to my limitations. It gave me hope that there would be a way for me to be employable. However, the current government has said that only those who fall within the merit principle are permitted to be employed. The merit principle, by definition, says that only the best-qualified for a job can have a job. Therefore, by definition, there are people who are second-best, there are people who get 80% instead of 90% in productivity and those people are no longer considered employable given the fact that, as a Progressive Conservative said in Hansard in a committee of employment equity, the economy is only placing workers by 1% or 2%.

I have worked. Work has cost me my health. I get bronchitis every year trying to work and trying to make myself go at a pace that is beyond what I'm able to do. I have tried hard to increase my speed to the point where I have been almost ready for a nervous breakdown a couple of times. I have lost my husband because the anxiety of trying to work was too much for him, let alone me. So I feel I'm defined as not able to work because I'm not capable of doing the work of two people, which is demanded in this economy, and yet I'm not eligible for

social assistance because I have worked to a limited degree.

Most of my jobs were on provincial government grants through the office for disability issues and met more accommodation. I could set my own pace in the workplace and I wasn't forced to work beyond my abilities, whereas even that has been taken away from me. What am I supposed to do? I feel with the favouritism to euthanasia I'm supposed to take my life. I really feel that, because there are no alternatives, no in-betweens. I've applied for UI. I have to wait 18 months to get help to reintegrate in the workplace, to get accommodation, to help me figure out, due to my limitations and abilities, how do I fit, and yet my UIC runs out in August. What do I do for a year and a half?

I know that people will discriminate against me in the workforce. I applied for training through the Toronto Institute of Human Relations. I have a BSW, and I felt, "Well, if I improve my talents and skills, I could maybe do therapy." However, they said to me: "No, we do not want you in the schoolroom. Your speech is difficult to understand. Your speech is slower." So if my speech is slower and so I have limitations on the job, no one would hire me, and yet I have skills that say I am no longer eligible for social assistance.

Mr Harry Beatty: I'll just be brief so as not to take very much time away from questions. I think the concerns expressed by Scott and Marilyn are quite typical of what we are hearing in our office from individuals in the community and family members, case workers and so on, that in terms of what is available, in terms of disability services and programs, things appear to be heading backwards. I think part of it is less money, restraint at all levels, but also a feeling that there is not a consistent approach to disability policy, that decisions are made program by program, but that often people are treated inconsistently.

As Marilyn described, vocational rehabilitation may describe her as unemployable, whereas certainly some disability income programs would look at Marilyn's work history and her education and say: "Well, you're employable. You don't qualify here either."

There needs to be a more coordinated approach. In terms of longer-term planning, the point I guess we've made year after year, Scott, is that we believe that the approach of integrating people with disabilities into the community will work over the long term. If people are given opportunities to work, people like Marilyn, they will succeed or a percentage will succeed and that's the win-win solution, and fewer people will be dependent on income and support programs.

However, it's only in exceptional cases that people are going to succeed with the first try, and it's not the kind of change where you're going to see a big savings at a program if you just look at one year at a time. There has to be a longer-term type of planning process, and it still appears to us, after several years, that a lot of the government planning process is tied to the one-year budget cycle, and perhaps if a longer-term view were taken, that investments in people like Scott and Marilyn and many others would be seen to pay off over the long term.

With that, I'll stop and we can ask for questions.

1650

Ms Castrilli: Thank you very much, Mr Beatty and Mr Seiler and Ms Ferrel.

Some of us had occasion to hear you on the Bill 26 hearings and were as moved that time with your presentation as we are this time. I think your thoughts were very helpful.

I wonder if I could focus on two aspects today. The first deals with what you refer to as win-win solutions, and your paper makes reference to that a number of times. It talks specifically about some significant opportunities for win-win solutions. I wonder if you could elaborate on that point.

Mr Beatty: Well, basically what we mean is that, again to take Marilyn as an illustration, if someone with Marilyn's disability attempts some education and succeeds in getting a degree and working, there is a real concern that if a functional approach is taken to disability definition and eligibility, that person will be seen as not disabled and the income support that a disabled person should have will not be there. So in a sense, people would be penalized for efforts. I think those of us who have worked in the community have seen this again and again with the person we feel would have the skills to work and perhaps very effectively, but the person is afraid of losing everything. Maybe Scott or Marilyn could follow that up.

Mr Seiler: Actually, the issue of people losing everything is probably more common than any of us would like to know about. In fact, the stories are rampant now about people who have gone out and worked and tried very, very hard in the last 10 years to improve their lives. I can even count myself in this. Frankly, other than having a lot more skills than I did 10 or 15 years ago, I'm about as far employment-wise as I was 10 or 15 years ago. I'm back unemployed.

I have a tremendous potential to be employed, but would anybody hire me under the type of things that Marilyn is talking about, having to be two or three people to be able to do a job and doing the job of more than one person at a time? Is that something that's possible for many people? Many people have tried very hard to do things for themselves.

Ms Ferrel: Perhaps I might just speak to that. I have had about 10 jobs; nine of them I have quit. I have quit because I was just so overwrought at trying to keep up, at trying to push myself beyond a pace. The desktop worked for me, but it took me a long time of trial and error to get there, given my difficulties. So in the current climate, I will be better off not trying in the first place.

Ms Lankin: Given that there's short time, I actually have three questions. What I'd like to do is put the three of them to you and then let you just take the rest of the time to answer them.

First of all, with respect to the number you put on the record of people whom you think will become eligible for social assistance as a result of a change in the definition of disability, could you tell us the kind of people, the kind of disabilities they have, what you think will happen and then—I've got two more questions I'm going to throw out, okay?—and what will happen to them then?

Secondly, we've heard the minister make much about the decline in social assistance numbers, of recipients, over the last little while. I've met with some folks who actually lost their housing and have gone off social assistance in order to get into shelters. But I want to know what you're hearing on the street in terms of that decrease in numbers.

Thirdly, lest anyone accuse you of just being defenders of the status quo in terms of the presentation you're bringing forward—because that's one of the concerns we've heard from government members—what would you recommend that the government do in this budget round with respect to these issues that you're raising?

Mr Seiler: I think with the very first question, it's crucial for you to understand that those figures come from the people who are what we call PUE, people who are permanently unemployable. These are people who are on the system as a category that is, quite frankly, outside of the disability category in itself. They are a very specialized category within the family benefits system. These people, most of whom have disabilities, but they are not disabled enough under the current definition of disabilities—which is not very broad in this province either, really, for the purpose of FBA—those people have been brought into the system because they didn't fit into the definition of disability and so they would not be covered by a disability definition that we have now, so they created this new system. Those are the people who will be there.

We don't know exactly the number but that's approximate, how many people will be out of the system.

Ms Lankin: Then the decrease in rolls now and what your recommendations are to the budget process.

Mr Seiler: The decrease in the rolls for assistance are people who have just decided that living on the street is preferable to living the way they have been on social assistance, in many cases. I'm hearing that from psychiatric survivors and I'm hearing that from many different people. People are ending up on the streets. They're ending up with family, who quite often are not equipped or able to cope either with people. They're ending up in shelters, a lot. We've had some deaths in Toronto, like I said earlier.

Some of the ways that we can deal with this is that people with disabilities need a system where they can be on and off assistance, as needed. What we don't need is more restrictions; we need a relaxed system, a system that will not spend most of its money adjudicating the disability, whether it exists or not. That is where the majority of the money goes. It doesn't go for allowances; it goes for bureaucracy that looks at "Is this person a disabled person?" Let's get rid of that bureaucracy and let people be able to say: "I'm a disabled person. This is my disability. I need some help until I can get a job or get back on my feet." And that's all that people want and need. They don't need to be tested over and over and over again for an established disability.

Ms Ferrel: When people say they are disabled, chances are they are, because being disabled, with the discrimination and the devaluation—as a person with disability, being devalued and discriminated is no picnic, and if I could get away without it, hallelujah.

Also there needs to be ongoing support for some people in their job, and I strongly recommend supportive work for some people on the job, job coaching. I particularly need a supervisor or a counsellor whom I can go to when I can't keep up or when patience, stress is too much for me. The VRS, as soon as I get a job, they cancel my case and then when I lose that job I can't go back again, and I can't wait 18 months. So for some people they may need ongoing support.

Also, let's not try to put people into jobs. Let's fit the job to the person. If all I can do is stamp envelopes, and I personally can be more than that but some can't, fine. That's something they can do. Pay either social assistance or a wage, it doesn't matter which, but they need an income. I believe each person has the right to use their maximum potential without fear that if they try they may be in a position where they're no longer able to survive, as the three people we've seen this week weren't able to survive.

1700

Mrs Marland: Marilyn, I agree with a great deal of what you're saying and especially just at the end when you were talking about the necessity to fit employment to the person so that, whoever they are, they can maximize their potential. When our government talks about hiring on the merit principle, there was never any intention that a person with a different ability in terms of a physical or a developmental ability would be measured against someone else outside of that category, because it wouldn't make sense to do that.

Ms Ferrel: For some people it would make sense; for others it doesn't.

Mrs Marland: Right. So when you say that you personally have experienced having a support person, a case worker I think was the term you used, or the counsellor, and then when you lost the job, then you would have to wait 18 months to get back. Obviously you're speaking of experience that you've had under previous governments, so it's not just a new problem.

I think I heard Mr Beatty say that the support will not be there. I think that that's making a statement in the future that simply isn't factual that the support will not be there. There is a commitment to people with disabilities and there is a commitment—I thought, Scott, when Ms Lankin asked you to give examples of what kind of disabilities were being dropped, she said, "Can you give us some examples of disabilities?" you didn't answer her question. You just said that it—

Mr Seiler: Yes. I can do that. I forgot that part.

Mrs Marland: Yes, okay. You said they were on a system outside the definition of disabled. I think, in fairness to people with disabilities, they need to have a definition that gives them the entitlement.

For example, when you talk about non-profit housing, what we're talking about is yes, the discontinuance of non-profit housing as a program, temporarily has reduced the number of new units being built, but what we're talking about is a program where if indeed you're eligible for help, the help is going to go directly to an individual rather than bricks and mortar in a building and it's going to give that individual an opportunity to live wherever they need to live.

In Marilyn's case, Marilyn, you may like to live closer to work than you could where an existing non-profit building existed. I think that what you will find is not a diminished level of service but greater opportunities in terms of where you can live with a shelter allowance, if you need that kind of help in terms of accommodations.

I feel that all of the things that our government did in its last mandate over 10 years ago towards helping people in the workplace, when you talk about building code stuff and the physical plant accommodation of people in employment, I think, speaks to the recognition that we've always had that people with different abilities have different needs and we're committed to accommodating those needs.

Mr Seiler: I think to answer one of the questions that was asked and a comment there, some of the people with disabilities who will be cut off are people with non-visible disabilities, people who do not need attendant services. It's very clear in the Common Sense Revolution that the entire premise behind the changing of the disability programs around social assistance is to diminish the numbers of people greatly who are eligible for assistance, and that is not helping people with disabilities, I'm afraid. That is going to further hurt them.

Plus, you've made a commitment to this province to diminish the rolls of the general welfare system. I think it's rather interesting that what you're going to do is you're going to cut off hundreds of thousands of people

from the rolls of FBA and shove them directly on to the rolls of the GWA program and take the—

Mrs Marland: But do you think the disabled—

Mr Seiler: Just a second—and take the ability of those people to have a decent way of life, because they cannot work for the most part, away from them. I think that is a disgrace.

Mrs Marland: Scott, do you really think—

The Chair: Ms Marland, given the hour of the day and the—

Mrs Marland: He just answered Frances's question. I just want to ask one final question.

The Chair: Is it very brief?

Mrs Marland: Yes. Do you really want to see people with disabilities stay on the welfare rolls? Do you think that's where they should be? Is that what you're saying?

Mr Seiler: Absolutely not. I would love to be able to see people move off the system, but without a good, comprehensive Employment Equity Act, that will never happen.

The Chair: Thank you very much for your presentation. We appreciate it.

Thank you to the committee for your cooperation today. I look forward to seeing you all at 9:30 promptly tomorrow. We have another full day. The committee stands adjourned.

The committee adjourned at 1706.

Continued from overleaf

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Pre-budget consultations

Comité permanent des finances et des affaires économiques

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRS

Wednesday 7 February 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES
ET DES AFFAIRES ÉCONOMIQUES

Mercredi 7 février 1996

The committee met at 0932 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Ted Chudleigh): I call the meeting to order. Our 1:30 appointment, the Insurance Bureau of Canada, has cancelled, so our lunch period will be extended until 2 pm. We have a full afternoon after that, so I ask you all to return promptly and be ready to go at 2 pm.

ONTARIO PUBLIC SERVICE
EMPLOYEES UNION

The Chair: The Ontario Public Service Employees Union is with us this morning, Leah Casselman. Good morning. Could you identify yourselves for Hansard, please. We have 30 minutes.

Ms Leah Casselman: Good morning. Leah Casselman, president of the Ontario Public Service Employees Union. This is Jim Onyschuk, an economic researcher on our staff with the Ontario Public Service Employees Union. As many of you, I'm sure, are aware, I'm the president of the Ontario Public Service Employees Union, still representing 110,000 workers in this province, and those are the real workers who are out there providing public service. Those folks are employed, directly and indirectly, by the Ontario government.

It goes without saying that OPSEU members have a keen interest in what's in the next Ontario budget. There are 67,000 of us working in the Ontario public service doing everything from plowing roads to inspecting meat to flying around saving lives in air ambulances to supervising young offenders, which is what I do when I'm not being the president of OPSEU.

Another 16,000 or so OPSEU members work as faculty and support staff in the Ontario community college system. Close to 30,000 of us work in the broader public service as technicians in hospitals, children's aid society workers, university support staff and so on. We pretty much cover the waterfront in terms of the number of different jobs we do to serve the public.

As you can imagine, we've taken a keen interest in the contents of the next Ontario budget. All indications are that that budget, if it goes ahead as planned, will cost the livelihoods of thousands of our members. We don't think that's very funny.

We're here to go on record to say that slashing public services and increasing unemployment are not the only options available to deal with Ontario's deficit problems. This province and this country are not facing any problems we haven't faced before. We have dealt with

economic problems bigger than these before, and we can do it again. The key to it all is learning from history. That's what we've called our brief that you have in front of you.

So far we don't seem to be learning from history. All we're doing is repeating it. We're just moving into that season of the year when bankers, corporations and business reporters get together to write the stories which will soften us up for cuts to public spending at both the federal and provincial levels. I think any of us could write the headlines that will soon appear in the *Globe and Mail*: "Deficit Demands Deep Cuts, Top Banker Says," "Public Spending Unsustainable, Eves Says," and my favourite of course is, "Cut Public Services to Save Them."

We've been reading these kinds of quotations at least since Joe Clark was Prime Minister. Every year we hear the doom and gloom about how we're about to hit the debt wall, go bankrupt and so on, and that cutting public spending is our only option. This kind of talk goes back a long way. In fact, in terms of the language used, the 1990s have more in common with the 1930s than with any other decade.

In the 1930s, at a time when there were few social programs to speak of and unemployment had already gone through the roof, federal and provincial politicians across Canada latched on to the idea that balancing the budget was the road to salvation. Disaster was routinely predicted if budgets weren't cut back. They worried a lot about saddling future generations with debt at the same time that present generations were flat broke.

What happened to all their predictions that the world would end if we didn't cut back? None of them came true. History ignored them completely. When the Second World War came, governments got serious. They cranked up government spending as high as it would go. The effect on the economy was instant.

Public spending during the Second World War was massive. By 1945, the federal debt alone was 155% of the country's gross domestic product, nearly twice as big as the federal debt today. All that money created the biggest economic boom ever during the war years. Unemployment went from 22% in 1933 to practically zero in 1944.

But there was still the problem of the debt. According to Depression-era economists, the same brand of economists we read in the papers today, that debt should have sparked an economic emergency. Governments should have cut their spending back to nothing just to deliver us from our debts. This did not happen. Despite the massive levels of government debt after the war, the years from 1946 to 1974 were the most prosperous years in Canadian history. This is very interesting. In fact, I think I'll say it

again: Despite the massive levels of government debt after the war, the years from 1946 to 1974 were the most prosperous years in Canadian history.

Government spending did not stop. On the contrary, it was during this period that Canada's most cherished economic and social programs came into being. We put together unemployment insurance and medicare in this country at a time when we were dealing with the biggest public debts this country had ever seen. How could this be? In this room we cannot ignore these facts, because they beg a very important question. If we organized an economic boom and built up some of our most expensive social programs at a time when public debt was at record levels, why can't we do that now? Anyone know?

Mr Douglas B. Ford (Etobicoke-Humber): Yes, I know.

Ms Casselman: Good, we'll get to you.

Why can't we do it now? The answer is, we can. At the end of the war the people who were running Canada used some basic principles of economics and the tools that were available to them. "Tools" seems to be a popular word these days coming from this government. We're not using those tools today.

0940

The biggest tool of all is something called the Bank of Canada. At the end of the war, the Bank of Canada took its mandate seriously. The mandate says that part of the bank's job is to "promote the economic and financial welfare of Canada." This means policies that create jobs. This means policies that meet the social and economic needs of our citizens.

Back in the old days, the Bank of Canada created most of the new money in circulation, and then it turned around and lent it to the federal government at interest rates as low as 0.37%. That's right—0.37% rate of interest.

What happens today is very different. The Bank of Canada creates only about 7% of the new money in circulation. The rest is created by our beloved chartered banks. The interest rates they charge, which the Bank of Canada has a role in setting, come directly out of our tax dollars to become their profits. We are paying the chartered banks for storing the public debt in their computers. In 1994, this form of bank welfare amounted to a \$3-billion subsidy from taxpayers to the chartered banks. This is close to three quarters of the pure profit they made in 1994.

In the last 20 years, the Bank of Canada has gone from being a strong advocate for all Canadians to being a brainless lapdog of the richest money-lenders in the country. The privatization of control over monetary policy in this country is the biggest scam ever in Canadian political affairs. Because the Bank of Canada is no longer serving the people of Canada, we are all being tortured on the rack of high interest rates. And I think we all know that interest rates are what is killing us.

Despite what some people say, public spending is not out of control. It is actually starting to go down. Some of the studies talked about in our brief have shown very clearly that big government debts are not caused by public spending. They are caused by the year-after-year effect of compounding interest rates. The high interest

rate policies of the Bank of Canada have guaranteed that no matter how fast you cut public spending, interest charges will keep adding debt faster than you can cut it.

I want to say more about what Ontario can do about the interest rate crisis in this country, but first I'd like to talk a bit about this idea of what we have to do to cut public service in Ontario. I'm not going to worry about cuts to health, education or law and order in my remarks here, because the Common Sense Revolution says quite clearly that these areas will not be cut. I am not one of those cynics who say that the Tories lied to get elected. I am not going to talk about the abused women and children who have been unable to leave abusive situations because of cuts that have already happened. I just want to talk about impacts on the economy.

Some people still don't seem to realize that a public dollar spent in their community has exactly the same economic force as a private dollar. This is why we are very surprised when cuts to public services cause the economy to slow down. But it's a fact. The \$5.5 billion in cuts already announced by this Ontario government represents close to 2% of the annual gross domestic product of this province. If we were going to have a 3% economic growth, we are now going to have 1%. Coupled with the federal cuts by that man of the people, Paul Martin, we are probably looking at zero growth or less; in other words, a recession.

A recession means more people end up on welfare. This costs the province money. It costs the government more. The public debt goes up. Bay Street calls for more cuts. More cuts mean more people on welfare. The technical term for this process is "death spiral."

OPSEU predicts with absolute certainty that the kinds of cuts being contemplated by the government will end in further devastation of our economy. These cuts will do nothing whatsoever towards creating the 725,000 jobs this government has promised to create. I might remind the government that the clock is ticking on that promise.

Fortunately, there is an alternative. All it will require of the government is some guts and some leadership. Here's what to do. I want you to get your burliest cabinet ministers and load them in a large car, probably a Lincoln. Take some copies of the Bank of Canada Act to read on the way. Throw some sawed-off two by fours in the trunk in case you need them. Drive to Ottawa. While you're driving to Ottawa, phone all the other provincial finance ministers on your cell phone and tell them to come to Ottawa too. When you get to Ottawa, go visit the Prime Minister, the Minister of Finance and the governor of the Bank of Canada. Explain to them what you want to do.

As you will learn on your trip, under article 18(1)(j) of the Bank of Canada Act, the bank can lend any province up to one quarter of its projected revenue for the fiscal year. With this in mind, you should instruct Jean Chrétien, Paul Martin and Gordon Thiessen that Ontario wishes to borrow \$12.098 billion from the Bank of Canada and that you are prepared to bargain on the interest rate. I suggest you start at 2% and settle for 3.5%. If they require persuasion, you have the entire force of the Ontario government to persuade them with, plus you will have the other provinces with you. Who

knows? You might even give Quebec an extra reason to stay in Canada.

If we can get our interest charges under control and use our money to speed up the economy instead of slowing it down, we can save our social programs and create jobs at the same time. We did it before, and we can do it again.

I'm sure you're thinking that someone will have to pay for all this, and it's true. In order to save our province and our country, we're going to have to stop subsidizing the profits of chartered banks and other bloodsuckers of the financial world. I know, I know—banks need money too. Too bad. I can't believe that a Finance minister who once ran a business like Tudhope Cartage out of Parry Sound has a soft spot for bankers. It just doesn't make any common sense.

The above strategy is a suggestion only. I leave it to the government to figure out the specifics. But everything I have said today is based on the answer to one question. That question is, if we fought a world war, loaded ourselves with debt, and then turned that debt into an economic boom and built up our cherished social programs, why can't we do it again? The answer is, we can if we learn from history. Thank you very much.

The Chair: Thank you very much, Ms Casselman. We have 15 minutes. We could do a five-minute round, with cooperation from the participants. Shall we start with the official opposition this morning?

Mr Gerry Phillips (Scarborough-Agincourt): We'd be happy to. Thank you, Mr Chair.

One of the big decisions in the budget is around staffing levels. You really haven't talked about that too much in your presentation, but I wonder if you can be helpful to us in terms of the implications. I went back and looked at the staffing levels of 10 years ago and the staffing levels today, over a 10-year period. According to these numbers, 10 years ago the staffing in the Ontario public service was 81,000. Today it's 81,000. It's essentially the same as it was 10 years ago.

Ms Casselman: That's correct.

Mr Phillips: The change in it, though, has been in what's called the justice portfolio: the police, correctional services, Attorney General and what not. That's gone up by 9,000 because—I'm rounding—10 years ago it was 15,000 and today it's 24,000, so by definition, the social resources in general government have gone down by 9,000. According to these numbers from the government, there is no change in the numbers, but there's been a fairly substantial increase in the law-and-order part and a fairly significant shrinking in all others.

0950

Have I interpreted these numbers properly? I may not be using the exact numbers you used, but is that generally the impression from OPSEU?

Ms Casselman: First, you're not implying that we're moving towards a police state, are you?

Mr Phillips: Not at all. I'm just trying to—

Ms Casselman: Just checking. I thought it would fit the pattern we're into here.

Anyone who's worked in public service—I have an advantage because I've worked with young offenders for 17 years. You have to figure out where you want to

spend your dollars to get the best bang for your buck, quite frankly. If you want to spend \$400, \$500, \$1,000 on a young kid when they need help at a children's aid society level, or even back in school—if you look at the Alberta school system, they now have more children on Ritalin in school because teachers are telling parents, "If your child's not on Ritalin, they are not in my class," because they've lost all the support workers who are in the class to help kids maintain and learn.

It all comes down to, where does our society want to spend its money? You can spend less at the front end when the kids are smaller and support the families that need help, or you can spend it at my facility where it costs a very large amount of money to keep dangerous young offenders locked up, or you can spend it in the adult system where you've got more police officers, a bigger court system, maybe more expensive bracelets to put on their legs. You're going to end up spending a lot more as soon as people get older.

In Ontario, we've moved away over the last 10 years from dealing with children and trying to ensure that children grow up safely and with all the proper tools and understanding of what society is all about and where they need to fit into it, as opposed to just waiting until all the problems blossom and then we deal with it in the criminal justice system. That's where you see the growth industry is in the province.

Mr Phillips: What I'm trying to get at is that there's a public impression that the government's got to wrestle the "bloated" bureaucracy down, and I'm just trying to get a definition of how big it's bloated.

May I correct the record? I now see I misled myself and others, because the OPP was in a different section of this. Actually, 10 years ago the justice portfolio was 20,000 and today it's 25,000, so it's gone up by 5,000 and the rest of the bureaucracy's gone down by 5,000. It isn't quite as dramatic.

I'm trying to get an idea of the impact if we look now at saying we're going to reduce the 81,000 by some number. We don't know what that number is; you may know it. I'm just wondering where the 13,000 or 15,000 or 18,000 are likely to come from, because I gather the government is very firmly committed to what you called—I think you called it law and order or maybe I called it law and order, but the justice portfolio. We assume that's not going to be touched, the policing, correctional officers, the court system, and that's the one that's gone up. So we're talking about cutting 13,000 or 14,000 or 15,000 out of 55,000, something like that.

Ms Casselman: My guess would be, since the government has only taken the opportunity to deal with the senior bureaucratic levels of the ministry in regard to where they think they can cut the civil service, that it won't be at that level. It will be on the front-end delivery in the communities, in whatever ministry they choose. I'm not convinced, Mr Phillips, that they wouldn't cut back in the criminal justice system. They may not cut crown attorneys or judges, but I think they'll go after the workers who move—

Ms Frances Lankin (Beaches-Woodbine): The family support plan.

Ms Casselman: Yes, the family support plan, clearly. That's a money-maker for them, but they want to make sure they create more managers as opposed to workers out there who can work hand in hand with people to make sure they get some justice.

If they're talking with only those folks to determine where they might want to downsize the civil service, I'm a bit dubious that it will be anywhere that would be effective. We know they've announced some cuts that the public has determined and other people have determined would not be effective in delivering service. If that's where they're getting their advice, I'm a bit leery.

The Chair: Thank you very much. We'll move to the third party.

Ms Lankin: Yesterday, we had some folks here from the Canadian Federation of Independent Business. I thought the members of the opposition parties were very respectful even though we might hold a different point of view, and I hope the members of government will be to you as well.

Ms Casselman: I wouldn't expect anything less.

Ms Lankin: I detected a certain antagonism growing on the benches over there as you were making your presentation. But I think you have provided some very helpful information, and I will take the time to read your full brief.

Within the context of what Ontario can do today, I think the arguments you make about all governments—it doesn't matter what political stripe—across all provinces taking a look at the federal government's monetary policy and interest-rate/exchange-rate policy is very important. In fact, more provincial governments of all political stripes are taking up that argument, but it's still dependent on an answer from the federal government. So while I don't disagree with that, there is an issue about what will happen in Ontario today if the federal government doesn't respond in a positive way to that.

Mr Phillips was getting at an interesting point. There is certainly a perception—underscored every day by some of the comments that Minister Johnson, for example, has been making in the debate about the negotiations that have been ongoing—that the Ontario public service has become bloated, has grown dramatically over the last 10 years with the “tax and spend” policies the government refers to of Liberals and New Democrats and the increasing and bloated bureaucracy. All those words evoke images, particularly done in a way to scapegoat public sector workers.

Yet when you look at the numbers, you can see that over the course of the 10 years, there has been an increase and a decline, and it's actually flat-lined. If you look at the number of civil servants per capita in delivering service, we're actually one of the lowest of all of Canada.

It's important that there's an opportunity for you to actually translate those images into what is happening in real communities. You talked a bit about the fact that a public sector dollar paid out or spent is the same as a private sector dollar. I'm wondering if you could talk about, in communities you've visited recently over the course of the last few months in the province, the local economies' reliance on stable public sector salaries and

what the likely result will be of any more dramatic cuts in that area.

Ms Casselman: You mentioned the Canadian Federation of Small Business. I've actually had the opportunity in my travels over the last couple of weeks to talk to a number of business people across the province. They come out to our meetings because they're concerned about people's buying power in their communities. They understand the housing starts are down, car sales are down; public sector workers aren't buying.

In their comments, first of all, they usually denounce that group because it's actually special-interest; they would rather spend their \$500 membership for that group on buying business cards to promote their business.

But they clearly understand the link between government workers, public sector workers and local economies. When you get out of Toronto and you get into the smaller communities around the area—Mr Chudleigh lives over near Maplehurst Correctional Centre. There are 1,500 public sector workers in Milton who add to the local economy in Milton. Who would've thought it, right? But there are all those folks over there.

When you get further afield, whether it's up in the Owen Sound area or whether it's farther north in Timmins or Thunder Bay or Fort Frances, for God's sakes, where you've got one jail—it's a border town. You close the jail; you then put the responsibility on the district, the municipality up there, to pay to transport inmates up to Kenora. So there's your policing dollars, which should be spent making sure people are safe and protected, being spent on running inmates back and forth and they're losing well over \$2 million in that local economy, which is extremely fragile.

1000

The Chair: We'll move to the government side, and please, keep your questions brief. I have seven speakers.

Ms Isabel Bassett (St Andrew-St Patrick): First of all, Ms Casselman, thank you so much for coming here today with your presentation. We are listening to you because we feel very strongly we want to work with you and to hear your views, and we will consider them politely.

Ms Casselman: Thank you.

Ms Bassett: I really mean that. I want to start with some common ground because there are so many things you've been talking about. Am I correct in hearing you say that you agree that the deficit is a big problem for us, our nearly \$10-billion deficit?

Ms Casselman: I agree that there is some room to make the public service more efficient and more effective, which we've talked to successive governments about over the years. We're looking for an opportunity to sit down with governments and talk about how you do that.

Ms Bassett: I know, but do you think the deficit per se, this big millstone around our necks weighing down government and business, is a problem, or do you not see it as a problem? I just didn't quite get what you meant.

Ms Casselman: There is a problem. It's not a crisis. The narrow focus of what the solution should be is what's of concern to us. So if you're looking at the spending end without looking at the revenue end, you're narrowing your solutions.

Ms Bassett: Do you think that all sectors should take part and share cutting back in handling this problem?

Ms Casselman: That depends on whether they're really involved. If you've got yourself, MPPs and senior bureaucrats, determining what the public service should look like without involving the workers who deliver the service—those aren't the ones who sit around the boardroom tables and develop the policy; they're on the front line in the communities delivering the service. You need to be talking to those folks. You can't just rely on those senior bureaucrats, because they're as far away from the front line, quite frankly, as you are.

Ms Bassett: I just wanted to know if you thought that everybody should share equally in this problem, in cutting back.

Ms Casselman: I would love to share in the wealth of the chartered banks. Yes, I think that's very important.

Mr Jim Brown (Scarborough West): I notice on page 35 you're talking about bank welfare, and it's interesting to note that little tinge of Social Credit policy about creating money. I'd just make that comment.

The real question I have for you is that we're spending \$1 million more an hour, \$24 million a day. I notice in the current negotiations that you have defined what are "essential services," and in the case of—

Ms Casselman: We've negotiated what are essential services.

Mr Jim Brown: Yes. You of course would like to get it down and management, I guess, would like to get it up, but—

Ms Casselman: Those negotiations are completed.

Mr Jim Brown: So for correctional services, for example, I think the figure is 48% of your staffing would be deemed to be essential.

Ms Casselman: No, 32%.

Mr Jim Brown: It's even less. The definition then would be that the prisoners would have their safety of life and limb. How could we get by on 32%? Wouldn't the difference of 68%, which means a savings of approximately \$10 million a day of the \$24-million deficit a day—68% is a tremendous fat factor. How can you explain that?

Ms Casselman: If you want to get into how negotiations are going, I'll gladly do that.

Mr Jim Brown: No, just this particular question.

Ms Casselman: Yes. What I want to try and explain to you is what the essential service agreement is for and what the emergency service agreement is for.

It's actually in a piece of legislation called the Crown Employees Collective Bargaining Act. When we were given the right to strike, we were also given the obligation, with the employer, which happens to be you folks right now, to negotiate what would be essential services in the event of a strike or a lockout. So we know that in the event of a strike or a lockout, there will be less provision—as in GM, there won't be any cars going down the line. In public service there will be less service delivered. We're able to withdraw some of our labour or you're able to lock out some of our labour in a labour dispute.

The negotiations that took place between the parties were just that: How can we provide the essential services

that are necessary to keep institutions open? It's not the health and safety of the inmates I'm worried about, it's the health and safety of the jail guards we represent who will be left inside that I'm concerned about. I would anticipate that most of those institutions would be in a lock-down situation so that no one gets hurt in the event of a labour dispute.

What I want to caution you about—and I know you guys have your lines you trot out every second word—is you can't use that as an example because that's in the event of a very serious breakdown in labour relations in the event of bargaining a collective agreement, which we're anticipating we won't get to.

Mr Jim Brown: But you would be prudent in coming up with the 32%.

The Chair: That concludes our time. Thank you very much, Ms Casselman and Mr Onyschuk, for joining us today.

CANADIAN CHEMICAL PRODUCERS' ASSOCIATION

The Chair: The next group joining us is the Canadian Chemical Producers' Association, Mr Chesworth, Mr Carlos and Mr Goffin. Welcome. We have half an hour.

Mr Alan Chesworth: Good morning. My name is Alan Chesworth. I am manager of the environment and safety department of Imperial Oil's products and chemicals division. I am also chairman of the Canadian Chemical Producers' Association business and economics committee. With me I have my colleagues John Carlos, who is from DuPont Canada Inc and is director of taxation, and David Goffin, who is vice-president of business development for the association. I believe you all have copies of our submission, and I will go through it.

As an introduction, the Canadian Chemical Producers' Association is pleased to have the opportunity to provide our views on the pre-budget consultation process. We represent 68 companies across Canada producing a broad range of petrochemicals, inorganic chemicals and specialty chemicals. A list of our members is attached in the appendix to our presentation.

About 60 members of our association have plants in Ontario, and Ontario produces 55% of all Canadian chemical shipments, so this is an important industry to the province of Ontario. Our members account for approximately half of the chemicals and chemical product sector which is represented in the province. This is the third-largest manufacturing sector in terms of shipments and value added and it provides about 53,000 jobs to Ontario residents.

A report on our most recent year-end economic survey of members appears in the second appendix; 1995 was a record and I'd say an excellent year for our members in terms of sales, exports and operating profits. The chemical industry is a very cyclical industry and these positive results helped us significantly over some of our low after-tax profitability but also loss years which we had suffered in the 1990-93 period.

We're also becoming an extremely export-oriented industry; 53% of our sales are accounted for by exports.

This is up from 33% in 1985. The impact of the free trade agreement has been very positive on this industry. Today, the United States is our largest export customer and takes 80% of our exports, compared with only 65% of our exports back in 1985. Last year, in 1995, exports again led the increase in our sales, rising 33% over 1994 and far outpacing domestic sales growth, which was only about 2%. So the export market is very important and our competitiveness in the export market is very important to this business.

Last year's stellar results unfortunately will not be repeated in 1996. Our members believe we're at the top of the cycle for industrial chemicals, and although our sales volumes will increase in this year, prices and margins have already peaked—they peaked about the middle of last year and have been declining steadily—so sales value is likely to decline. Nevertheless, 1996 still promises to be a good year for chemical manufacturers, with results which will make a positive contribution to helping this government achieve its budget goals.

1010

The Ontario business climate has changed and is changing significantly for us. In last fall's fiscal and economic statement, Minister Eves said, "This government will support business by providing a positive business climate, with competitive taxes, responsible fiscal management, and fewer barriers to investment and growth." A positive business climate is critical for the chemical industry, because the chemical industry is a global business, characterized by very strong international investments and trade flows. Ontario is a very small player in this worldwide business and with a modest domestic market.

The province needs to be more than equal on a competitive basis to help our member companies compete and to attract new chemical sector investment. A positive economic climate is essential to our customer base in Ontario, which also faces global pressures. It will be to the advantage of all Ontarians if investment in high-value-added sectors like chemicals and its customers can be maintained and gradually expanded. We believe that the policies being introduced by this government are providing the foundation to make that happen.

A CCPA score card and text assessing the competitiveness of Ontario business and policy environment for chemical manufacturers as of the beginning of this year is attached in appendix 3. The previous version of this score card showed that Ontario had lost its competitive edge, primarily due to negative government policies and perceptions about those policies. I would emphasize the word "perceptions" as being equally important, because perceptions are more difficult to change than are realities.

Now we are confident that the declining competitiveness has been arrested and the government is on the right course to restore business confidence. Fiscal responsibility and better-balanced labour laws are key components of this process.

Turning to the government's commitment to fiscal responsibility, the Canadian Chemical Producers' Association fully supports the government's aggressive spending cuts as a means to achieving a balanced budget. While these measures will have a dampening effect on economic

growth this year, they are rated positive both by the capital markets and the business community. Eventually, the spending restraints and other positive government policies will help the private sector to grow and offset the effects of government restraints. In the shorter term, the promised reduction in personal taxes will help cushion this blow.

Spending cuts are never popular and there is no doubt that they do involve hardship, but the Canadian Chemical Producers' Association is convinced they are necessary ingredients in obtaining a balanced budget. Personal taxation reduction is a key to stimulating the province's economy, and ultimately this will help towards a balanced budget.

As for corporate taxes, the CCPA's analysis in appendix 4 shows that for chemical manufacturers, there is no room for increased taxes. The province's corporate tax system is marginally competitive with those of our major competitors on the US gulf coast. I have to emphasize that this is definitely global competition that we're talking about, and our immediate competition is Texas and Louisiana, so when we look at our competitive basis, we have to look at Texas and Louisiana.

International investors in chemicals considering Ontario for potential investment need to be assured that corporate tax systems will be both stable and competitive. Changing tax systems is not viewed positively by the international investment community, and they have to be competitive with the jurisdictions with which we compete which are outside this country.

As you may be aware, Alberta is another leading province for the chemical industry investors and it now has a balanced budget. It is also considering some tax reductions for manufacturers both of chemicals and in other industries in this year's budget. This is specifically in the area of machinery and equipment tax which puts the Alberta chemical industry at a disadvantage from those competitive benchmarks in Texas and Louisiana.

The burden of government spending restraint is shared by companies as well as individuals. It has already resulted in substantial reductions in business subsidies, which the Canadian Chemical Producers' Association supports. The government must be cognizant of how other jurisdictions use subsidies, with our goal of seeing Ontario's overall business and policy environment surpass those offered by other jurisdictions.

Spending restraints will also mean increased cost recovery for government programs and services, a process that the business community generally supports so long as it is implemented in a manner that does not undermine companies' competitiveness. appendix 5 proposes a number of measures in support of appropriate cost recovery which have been provided to the federal government. I would add, though, that I believe those are equally applicable to all levels of government in this country.

Regulatory reform. The minister is counting on his Red-Tape Review Commission to remove barriers to growth, promote economic prosperity and create jobs. The CCPA agrees that the regulatory systems need to be redesigned to provide a stronger margin of competitive advantage. We plan to participate in the reviews of

existing regulations and to promote greater reliance on voluntary initiatives in future to improve industry competitiveness and government efficiency.

We believe that the Canadian Chemical Producers' Association's responsible care ethic provides a sound basis for formally recognizing voluntary pollution prevention and reduction efforts in our sector. Responsible care is a formal commitment that our members make to a set of principles and codes of practice covering the responsible management of chemical products throughout their life cycle.

In conclusion, the government has already made tough choices and difficult decisions in its two 1995 economic and fiscal statements. This year's budget promises more of the same. Our association urges the government to stay the course towards balancing the budget and restoring a competitive business environment. In our view, this is the only way to return the province to a period of sustained economic growth.

Thank you very much. I'd welcome questions and have my colleagues help me answer them.

Mr Tony Silipo (Dovercourt): Thank you very much for the presentation. I'm looking at appendix 2. I'd like to probe a little bit. You made the point that 1995 was a very good year for the industry, and I think that's good. I want to look at it from the perspective of one important way, at least, of how that growth would affect people out there. I note with some interest that while sales were up and profits were up, the number of people you employed in the industry went down.

Mr Chesworth: Yes.

Mr Silipo: You expect it to go down further in 1996.

Mr Chesworth: Yes.

Mr Silipo: I just want to challenge, in a very polite way, your assertion that therefore these cuts and the government's economic strategy are going to be good for all of us at the end of the day. If that doesn't translate in the private sector to more jobs, how is it going to be good for the people of the province?

Mr Chesworth: I need to explain the dynamic of the industry to you. I said it has to be a globally competitive industry. If we look at pricing and we look at volume of our commodity products produced, you are on a continuously declining cost of producing to stay competitive, and that is exclusive of raw materials. So we have to produce our products, every year, smarter and smarter. That means, per ton of product, lower cost. We can do that by producing more and selling more—we do that. We can do that by looking at our organization structures and looking for efficiencies. We can look for ways to have people work smarter. We use all those tools to keep ourselves on this treadmill of ever-increasing productivity, the only way we stay competitive.

Mr Silipo: I don't quibble with that. I think that's what has to happen.

Mr Chesworth: That's the dynamic you've seen going on here. The next thing we have to do is to compete in a global competition—and many of us international companies, so we're competing with our international colleagues—we have to compete to get investment so that the next chunk of major investment gets located in Canada. That's where having a very competitive govern-

ment environment to operate in, having a government environment which encourages investment and is seen to support investment, is critical. This is why I mentioned very early on that perception was important. In our global system, there is a perception that Ontario has not been a particularly good place to do business. The facts behind that are changing, but the perception takes more time to change than some of the structural pieces around it.

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Mr Silipo: I understand the importance of perception, as you put it. As I said, I'm not disagreeing with the need for your industry and many others to be competitive and for us to recognize that certainly, your industry being very good example, competition today is worldwide and that we can't isolate ourselves as a province or as a jurisdiction from what's happening elsewhere. So I don't argue at all with that assertion; I think it's in fact part of the reality of good government and good business today.

I guess I'm using this as an example of something that I am becoming more and more troubled by, which is that if the assertion by you and by many others in the private sector is that government needs to do what this government is doing because at the end of the day—I think you said yourself that initially it won't help, but I think you're saying that over time it will.

Mr Chesworth: Yes.

Mr Silipo: We saw the Minister of Finance tell us that even with all of the cuts, and the tax cut included, he doesn't expect any real positive growth in terms of jobs being created at least for a couple of years down the line. I'm troubled, because when I listen to economists, as we've been listening to, I don't get that sense of comfort that out of all of this pain will come those jobs. While I think it's good to have the petrochemical industry being able to compete across the world, it's good to have banks continue to make the profits they have, if that doesn't translate into more jobs for people in this province, as a legislator I ask myself, why are we further ahead? How are we further ahead if we're going to have a level of unemployment over the next couple of years that's going to be at best at the same level that we have now?

Mr David Goffin: Could I jump in for a moment? If you look a couple of lines up in the chart, you'll see our fixed capital expenditures in Ontario are not very outstanding either. That's the part we have to turn around. Take this policy environment that has just changed here. A year ago we were having a great deal of difficulty selling Ontario. As Mr Chesworth says, we have to turn that perception around, and we'll do our part to do that. If you look at our fixed capital expenditures, most of those are in terms of plant retrofits and incremental expansions in plants that add to capacity but add virtually nothing to employment.

What we've got to do is sell the new climate here to get new investment into our sector. We particularly need it in Sarnia. We have two new plants that come to mind immediately coming into Ontario now, but just two. We want to see that expand considerably over the next couple of years. So you're right; it's going to take some time. But with the changes that we see taking place here, we want to see the new investment that comes in that

provides employment not only in our sector but also in the downstream sectors that we supply.

Mr Wayne Wettlaufer (Kitchener): Thank you, gentlemen, for appearing today and for your submission. I'm going to ask a couple of very short questions, and I'd like on the record whether you feel that the \$10-billion deficit is a major problem.

Mr Chesworth: Yes. We consider it's a major problem because it's an ever-escalating debt service problem.

Mr Wettlaufer: You would agree that we all have to share in the solution to that problem.

Mr Chesworth: Yes.

Mr Wettlaufer: Keeping in mind the ever-increasing growth of public debt interest and its effect on the deficit, you have mentioned already that you expect that in 1996 your sales and your profits in your industry will flatten compared to 1995.

Mr Chesworth: In terms of sales volume we'll increase, in terms of sales revenue and margin profitability decline, from 1995.

Mr Wettlaufer: How do you see an increase in the deficit and public debt interest affecting that?

Mr Chesworth: It doesn't have a direct impact, because what's causing the decline in revenues is part of the commodity chemical cycle, and excess supply on a world basis is depressing prices. Very directly, the deficit within Ontario is not going to impact that in 1996. Our concern vis-à-vis the deficit in Ontario is creating the right business climate so we can attract investment. That's the linkage for us on reducing the deficit. Maybe my colleagues can add something to that.

Mr Goffin: I think Mr Chesworth is right. We see CEOs in major chemical companies in Canada stand up and say that the country has moved in a positive direction on many of the competitiveness basics for us over the last couple of years. The big negative that a CEO of a major chemical company had to overcome in the last couple of years was government here in Canada and what government had done at the federal and provincial level in trying to bring that new investment into the country.

Mr Tim Hudak (Niagara South): Gentlemen, if I could just ask a bit beyond 1996 as well, if the debt spiral continued and debt interest charges increased substantially, as they would have done if this government hadn't made some of the difficult choices it's already made, does that have an effect simply on the CEOs, the ownership of the corporation, or does that affect the workers here in Ontario?

Mr Chesworth: If our competitive position on a global basis deteriorates, then we are in a position where we're going to have to consider closing plants down, and that impacts on employment.

Mr Hudak: So you run, as you said, a very competitive business.

Mr Chesworth: Extremely competitive, and what has happened in the last five years is that we've gone from a business which was essentially built to serve a domestic market and so was scaled to serve a domestic market—with free trade and the removal of tariff barriers, which we supported, we have had to find ways to take those below-world-scale plants and make them operate at world-scale competitive costs, and we have done that. We

need a positive economic climate to be able to keep doing that. If the economic climate turns around on us, then we are going to lose our competitive position and that will have a snowball effect on employment.

Mr Hudak: And the negative impact of debt financing on the chemical industry, is that unique to the chemical industry or do you expect that—

Mr Chesworth: No, I believe this is true for industry and business in Ontario across the board, not just for the chemical industry.

Mr Jim Brown: You're a major competitor in Louisiana and Texas, and I know they have right-to-work legislation and they have probably fewer regulations. If we were to do some more changes in our structure, would changed labour legislation or changed health—

Mr Chesworth: Let me say something about regulatory regimes. I'm maybe thinking more about permitting and environmental regulations, things like that. We have a better process in Ontario than they have in Louisiana and Texas, particularly in Texas, and it's because it is a much more consultative process that goes on. That we consider is one of our sustainable competitive advantages and we encourage the regulatory reform because we believe it enhances what we think is a competitive advantage.

Now, there are other areas. You will see that Ontario is a problem for construction costs when it comes to new investment. That's not because our construction workers are any less skilled—in fact, we have very skilled construction workers—but that is to do with flexible labour practices. That is an area that we have to address to improve the competitiveness with which we can put investment in the ground, and we are working with the Sarnia Construction Association to try and look at improving work practices so we get higher productivity in the construction area.

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That is one of the areas where Louisiana and Texas certainly have the benefit over us, and that's not to do with the dollars per hour that a mechanic or a rigger gets. That's to do with how efficiently they work and it's to do with work practices.

I'll give you an example. If I'm rigging piping in Sarnia, I have to have two fully qualified riggers at \$27 an hour. If I do it in Louisiana, I have to have a guy who's being paid \$27 an hour, or even a little bit more in Canadian dollars, but he has a helper who is unskilled—and that's all you need, is a helper, and he's probably only being paid \$10 or \$12 an hour. That's what I mean by flexibility, and that's an area we have to address, because our construction costs in Ontario, which impact the investment decisions, are not as competitive as they need to be.

Ms Annamarie Castrilli (Downsview): Gentlemen, I want to say that it's very useful to have you here, primarily because it assists in understanding how the government's plan would trickle down, would work down at your level. The Minister of Finance has stated this week—indeed as has been the position of the government and, before that, through the Common Sense Revolution—that cutting taxes will create jobs. There's no

dispute with respect to that. I'd like to pick up on that again, with your indulgence.

I heard you say that in order to get the total picture of jobs and investment, we need to look at not just the number of employees and the salaries but also at fixed capital expenditures. As I look at it, I see some trends. Every third or fourth year capital expenditures go down. There's a really big blip between 1990-91 and 1994-95. When I look at your projections for 1996, it looks to me like you're pretty much on target, given what the figures are here.

With that in mind, I'm still a little confused, because the minister and government have indicated that their projections for job creation are in the nature of 725,000 over the next five years. We've got 72,000 that would be created in 1995; 81,000 in 1996; 100,000 in 1997; and then another 180,000 in the remaining years. When I look at your charts here, I wonder how you feel about those projections with respect to your industry. I realize that you're not going to create the bulk of those jobs.

Mr Chesworth: I can't answer the broad question you've asked, but I think I can answer some specifics. When we look at capital investment—and you mentioned there were peaks through that capital investment profile—first of all, you have to have some concept in the petrochemical industry of what a major investment is. If we build a polyethylene plant, we're talking about a \$200-million investment. If we build an ethylene cracker, we're talking about \$400 million or \$450 million. So some of those spikes when the industry investment went over \$1 billion was because there was a cracker being built.

When we look at next year—well, this year, 1996—our members are projecting \$850 million in investment. That investment will not come on stream until 1997-98, so it will not impact directly on employment in our companies. Where it impacts is in the construction industry, because that \$850 million is going to be spent in the construction industry on materials and labour. There's a knock-on effect which I don't have the details of, but I'm sure that we have some numbers which will tell you how many jobs are created through an \$850-million investment.

Ms Castrilli: With respect, that would probably be offset by a decrease of employment in your industry.

Mr Chesworth: I don't know whether that's the case or not.

Mr Phillips: Just two or three quick observations. I thought the letter to Mr Eggleton was a good letter and I think the government should look at that. I hope they do. I think it's good advice.

Mr Chesworth: Thank you.

Mr Phillips: I won't ask you the political question they were trying to get at, and that is, does it make any business sense at all, if you've got this huge deficit, to cut taxes by \$5 billion? Is it not more important to get the fiscal house in order before you—I'm from business too. I would never declare a huge dividend when I'm bankrupt. But I won't ask you to comment on that, because that would be unfair.

Interjections.

Mr Phillips: No, it is unfair and they don't want to be putting the political comment on a political matter. I just

say to them they talk about \$24 million a day for interest costs. They want to give a \$14-million-a-day tax break.

You mention in here that costs, wages and benefit costs, are a significant competitive advantage for Ontario, 10% to 40% lower, I gather, than other jurisdictions.

Mr Chesworth: Let me clarify that. When we talk about our professional costs, that's our managers, me, and we look at comparable salaries in the US, depending on which company you're working for, and you take together both the salary and the total benefit package; that's the number we're talking about. When we look at total remuneration of our wage people, it's much closer to being similar to the US. So we have compression between wage employees and salaried employees in Canada compared with the US.

Mr Phillips: Okay. But still, I gather, an advantage.

Mr Chesworth: It is an advantage. A lot of it's driven by exchange rate.

Mr Phillips: Yes. Historically, the Ontario government has provided funding, assistance to businesses, often looking to get a plant located here in Ontario. It's often in the auto industry, and it's been seen sometimes as the thing Canadian companies need to compete with other jurisdictions when you're competing for plants. Am I interpreting your recommendation here that that's not a factor and you don't think that is needed?

Mr Chesworth: We believe as an association in a level playing field. If you look at our tax models, you'll see in our tax model we didn't simply just look at corporate tax. We looked at the whole payroll tax, whether it be for health, education, municipal taxes. So we included all that, and you see some big differences. I'll get to you information on the subsidies. It's the same on subsidies. On subsidies to industry, we support removing those so long as you're not throwing the baby out with the bathwater. If a competing jurisdiction has a subsidy to industry that you have to compete with, then we better have some offsetting, compensating control on that.

Mr Phillips: I think there were three or four auto plants that if there had not been the money available may not have come here. That's all.

Mr Chesworth: I can't speak for the auto industry.

The Chair: Thank you very much, Mr Chesworth. We certainly appreciate your presentation. Mr Carlos, Mr Goffin, thank you very much for joining us today.

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ONTARIO PHARMACISTS' ASSOCIATION

The Chair: The next group that we have is the Ontario Pharmacists' Association, Mr Gary Sands and Mr Peter Struthers.

Mr Gary Sands: And, Mr Chair, we have our CEO, Barb Stuart, who has just stepped out for a second. She'll be sitting at the table too.

Mr Wayne Marigold: My name is Wayne Marigold. I'm the president and chairman of the board of the Ontario Pharmacists' Association. With me in a moment will be Barb Stuart, our chief executive officer; Peter Struthers, one of our executives; and Gary Sands, who is our manager of government relations.

On behalf of over 4,500 pharmacists across Ontario who are members of our association, I wish to thank the committee for its invitation to put forward our suggestions for the 1996 Ontario budget.

Today we want to talk about the role pharmacists can play in helping the government to reduce costs throughout the health care system. Pharmacists are drug therapy specialists. By preventing and solving drug-related problems through pharmaceutical care and drug use management strategies, pharmacists can save the system tens of millions of dollars that can be used to maintain other essential health services.

Budget time is always a time for difficult choices. Costs must be reduced and spending must be brought under control. But as the government moves forward to reduce and control spending, it must ensure that essential services are maintained at appropriate and sustainable levels.

Ontarians have said that maintaining the quality of their health care system is the number one priority for their government, but health care costs are the largest and most rapidly rising segment of government expenditures.

The challenge is to deliver health services with less money and better quality. This challenge of course applies to drug therapy programs, which are a large and essential component of the health care system.

Drugs prescribed, dispensed and consumed appropriately are very cost-effective health care interventions. Quality drug therapy can even replace, delay or prevent the need for more expensive health services. This makes it imperative that all Ontarians have access to prescription drugs.

In terms of the 1996 budget, we estimate that program improvements, cost-saving measures and an expanded role for pharmacists can save between \$150 million and \$400 million annually. A small investment in pharmaceutical care can free up millions of dollars to be reallocated throughout the health care system.

In the attached paper, *Strategies to Reduce Health Care Costs Through Pharmaceutical Care and Medication Management*, the Ontario Pharmacists' Association has set out the challenges and opportunities facing both the government and pharmacy.

The key challenge is to control and reduce rising drug benefit program costs, which are forecasted to be \$1.3 billion in fiscal 1995-96, and rising health care costs due to inappropriate drug use and non-compliance, estimated at billions annually. There are several reasons for these problems:

—The rapid increase in the number of beneficiaries. There are about 1.3 million seniors and 1.2 million people receiving social assistance in the ODB plan. These numbers will continue to rise. We believe the welfare-social assistance numbers are decreasing, but from a demographic point of view, we all know that there's an increasing number of seniors and obviously those numbers will rise significantly.

—The large number of prescriptions per beneficiary. Over 300,000 seniors receive 20 to 50 prescriptions per year, and more than 150,000 seniors receive over 50 per year. Those are the government's own numbers; that's what's been reported.

—The costs of new drugs. The average cost of existing therapies per claim is estimated at a third less than the new therapies. That's not to say that the new therapies aren't worthwhile, but that is a fact.

—Inappropriate prescribing. Studies report rates of inappropriate prescribing in Ontario of 25% to 40%. Based on a total of ODB costs of \$1.3 billion, this could be costing between \$250 million and \$400 million annually.

—The large number of people, over 17,000 annually, who are treated for prescription drug problems in Ontario.

—The high incidence of hospitalization for seniors related to medication misuse. Estimations are that approximately 20% of seniors' hospitalizations are due to adverse drug reactions.

—The \$25 million to \$250 million worth of drugs that are wasted each year.

—Finally, the failure to take prescription medications or non-compliance costs the health care system millions a year in terms of hospitalization, physician visits, lost productivity and premature deaths. Many studies have shown that up to 50% of patients are non-compliant with their drug therapy. We have had instances, one in particular that we are aware of, where with inappropriate counselling, prescribing and follow-up and compliance, an individual had a prescription for the nicotine patch, continued to smoke and died. That is probably not an isolated issue.

Sensible solutions would be:

—To improve prescribing practices through physician training, prescribing guidelines, counselling by pharmacists and improved access to drug information for health care professionals. A 10% improvement in prescribing practices could potentially generate \$25 million to \$40 million annually.

—To reduce drug wastage by implementing a trial prescription program which would see patients receive an initial seven-day supply of a prescribed drug, and if tolerated and suitable, then receive the balance of the prescription. Based on experience in British Columbia, a trial prescription program in Ontario could potentially save \$27 million to \$45 million annually.

There was an incident just last week in the company I work for where a senior received a \$600 prescription, and in a matter of a couple of days the spouse brought back the prescription to our store and asked whether or not we could refund her the money, or at least refund the government. Obviously, due to legislation, we're not allowed to take back medication and reuse it, and \$600 went down the drain in the system. A trial prescription program could have prevented that.

—To further control the use of sustained release formulations. A 1% or 2% saving could generate \$13 million to \$26 million annually.

—To establish a protocol for pharmacists' therapeutic intervention that would allow for the interchange of the most cost-effective drug. Obviously that would have to be done in consultation with the physician. We would not be doing that alone.

—To require mandatory drug use evaluations by pharmacists on each ODB recipient. That could save \$13 million to \$26 million annually and reduce other health care costs related to misuse.

—To develop a medication passport using smart card technology to reduce overuse, misuse, drug wastage and inappropriate prescribing and save \$13 million to \$26 million annually. As you may know, the current Health minister was very supportive of the smart card technology prior to the election.

—To undertake a comprehensive, public-patient education program to address the \$250-million drug wastage problem.

—Finally, for government and pharmacy to explore the potential cost savings and feasibility of all these initiatives in order to save from \$150 million to \$400 million annually.

In addition to these cost-saving measures, there are significant opportunities to rethink and redesign the entire drug benefit system:

Eligibility requirements could be reviewed to ensure that all those receiving assistance truly need assistance.

The ODB program could be redesigned using a mix of public and private plans to extend coverage to all Ontarians on a premium basis. It is possible to provide coverage to an additional 2.5 million Ontarians with no protection at no or little additional cost to the government.

A major review could be conducted on the ODB focusing on ways to streamline operations, to make greater use of technology to assist pharmacists and physicians in providing optimal drug therapy and to expand the role of pharmacists in providing pharmaceutical care and medication management.

No matter what other objectives the government wishes to achieve in the 1996 budget, the health and quality of life of the citizens of Ontario, through our health care system and equitable access to quality drug therapy, must be sustained and protected.

Pharmacists are in a unique position to have a positive impact on the way drugs are prescribed, dispensed and consumed in order to protect the future of drug therapy programs and control health care costs. Can pharmacists really save this much money? The answer is a definite yes.

In 1993, the Canadian Pharmaceutical Association established the Community Pharmacist Intervention Study. The study examined the interventions that resulted in a check or change in drug therapy for prescription drugs. It also examined the advice given by pharmacists to consumers on minor health problems and over-the-counter drugs. There were approximately 600 pharmacies across Canada in the study. It was a well-designed study and will be published in much more detail shortly.

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Based on this study, the estimated savings to the health care system were substantial. The numbers I'm going to state are based on extrapolation of the 600 or so pharmacies to all pharmacies in Canada—this is a Canadian number; we can do our mathematics based on Ontario's population—and this is on an annual basis.

There were approximately 6.16 million prescription interventions by pharmacists across Canada. There were approximately 15.28 million over-the-counter interventions across Canada. The prescription interventions saved the health care system between \$80 million and \$103

million. Helping patients to use medication properly saved the health care system approximately \$20 million. Pharmacists counselling on over-the-counter medication saved approximately \$167 million to \$266 million. Obviously, part of that would be in reducing the number of visits to physicians, and potentially hospitalization as well, and maybe visits to emergency departments.

Established total savings to the health care system in 1993 across Canada from pharmacist interventions were \$268 million to \$388 million, or approximately \$44,000 to \$64,000 per pharmacy. Those are national numbers.

The Ontario Pharmacists' Association believes that government and pharmacy must work together on a range of initiatives to achieve these goals. We will be setting forth our objectives in our upcoming meeting with the Minister of Health. The 1996 budget provides an opportunity for the government to set realistic and achievable cost-saving targets that will enable it to maintain the health care system in the future with no additional costs.

It is therefore recommended that:

—The government establish a formal partnership with the Ontario Pharmacists' Association through a memorandum of understanding with the Ministry of Health to co-manage the drug therapy programs and implement specific measures to improve their quality and cost-effectiveness.

—The Ministry of Health and the Ontario Pharmacists' Association, in consultation with other stakeholders, undertake a fundamental redesign of the drug benefit programs to ensure all residents of Ontario have equitable access to quality drug therapy.

—The savings generated through program improvements and redesign be utilized to maintain the quality and accessibility of Ontario's health care system.

—The Ministry of Health and the OPA initiate a trial prescription pilot project as soon as possible.

In closing, I would like to thank you for the opportunity to put forward our suggestions for the 1996 Ontario budget. The Ontario Pharmacists' Association is confident that by working in partnership with government, our colleagues in health care and the citizens of Ontario, we can improve the quality and cost-effectiveness of drug therapy programs and help control or reduce costs in other parts of the health care system.

Mr Ford: Welcome here today, you and your colleagues. I noticed you were talking about cost, savings, and then you talked about \$25 million to \$250 million worth of drugs wasted each year. This is why this government was elected, to set the budgets and keep costs under control. I'd like to know if you agree that the \$10-billion deficit must be addressed.

Mr Marigold: Absolutely. I think it goes without saying that a deficit of that magnitude has to be looked at and reduced. We believe we have some ways in which we can help to do that.

Mr Ford: I was listening and reading and following along with you. You point out a lot of controls and costings that could be saved, and we appreciate your opinions on that.

Ms Bassett: Thank you for your submission today. I understand that the Minister of Health will be meeting with the association tomorrow. Will you be discussing the

memorandum of understanding about a formal partnership?

Mr Marigold: Yes, it is our intention to discuss that tomorrow, and a number of other issues as well that were outlined today.

Ms Bassett: It was your fourth recommendation I was particularly interested in, that the Ministry of Health and the Ontario Pharmacists' Association initiate a trial prescription pilot project as soon as possible. Will you be raising that tomorrow?

Mr Marigold: Yes, that will be raised tomorrow as well.

Ms Bassett: Could you outline a little bit about that pilot project?

Mr Marigold: Obviously, we would have to meet with the minister and discuss the details for that. The way it's currently working in British Columbia is that there's a prescription written for whatever quantity it is, but the pharmacist dispenses a seven-day supply. At about day six the pharmacist follows up with the patient, asks specifically: "Are you tolerating the medication? Have you had any side-effects? Is it helping?" That being the case, the rest of the prescription is dispensed. The statistics so far for a reasonable number of drug categories is approximately a 50% saving.

Mr Wettlaufer: On the seven-day prescription, I had discussed this with a member of your association a few weeks ago and I just want a clarification. There is no double prescription fee; is that correct? In other words, you've received a prescription fee or dispensing fee the first time but not the second time.

Mr Marigold: In British Columbia there are two fees, but in spite of the two professional fees, there is still a 50% saving in the cost of the program. Obviously, we would wish to discuss protocols for this in setting up a pilot project, so these details have not been worked out. But that's the current situation in British Columbia.

Mr Wettlaufer: When we were talking about the seniors and how they get medications mixed up and what have you, partly this is due to the fact that they are under stress when they are receiving their medications and of course when they receive the prescription from you. Have you ever given any thought to having a printed sheet large enough for them to read, as opposed to the label on the bottle, that seniors could read better? Has that ever been thought of?

Mr Marigold: The majority of pharmacies in the province do in fact generate a computer fact sheet which indicates things like the reasons for the drug, potential side-effects and how to take it properly, so that's in addition to the label.

Ms Castrilli: I've not had an opportunity to read in detail your strategies, but from the cursory glance that I've given to it, I'm very impressed with some of the cost saving measures that you propose.

I notice that on page 3 of your supplementary document you set out what you think are the nine principal ways to control costs. How many of these have been discussed with the minister to date? I know you have a meeting tomorrow.

Mr Marigold: Specifically with the minister, we have talked about a couple of ideas. We have talked about trial

prescriptions very, very briefly. Prescribing guidelines, as you may know, are already in effect for anti-infectives and anti-hypertensives, I believe. Obviously, that will be discussed as well. So we have been involved in setting up those particular guidelines. But the detailed information has not been discussed with the minister at this point.

Mr Sands: One of the things we're trying to convey to the committee, because of these initiatives that we're talking about that we believe will generate significant saving—we're looking to this committee for some support vis-à-vis the Minister of Health in being able to discuss them. We are meeting with the minister tomorrow, but we're not anticipating that we're going to be able to come to an agreement on all of those issues in a one-hour meeting. That's why we thought we'd take this opportunity to bring it to the attention of the committee. 1100

Ms Castrilli: As one member of Her Majesty's loyal opposition, I'm certainly impressed. Have you had a consultation process and has it been satisfactory so far? Is tomorrow part of that consultation process or is it a beginning?

Mr Marigold: We had met with the minister early in September. We've communicated—

Ms Lankin: That's when you had your input into Bill 26.

Mr Marigold: I guess you could say that. We had met with the minister early in September and there has been some correspondence back and forth. We have not really had an opportunity to do much consultation at this point but we are meeting with the minister tomorrow and we certainly believe that we will be able to discuss most of these issues.

Ms Castrilli: I hope you will have that opportunity.

Mr Phillips: I gather the current cost of the drug benefit plan for Ontario is around \$1.2 billion or \$1.3 billion.

Mr Marigold: Yes, somewhere around there.

Mr Phillips: And with the announcement that was made in the fiscal statement the plan is that that would reduce the cost to the province by \$225 million. Am I working with the right numbers here?

Mr Marigold: That's the estimate, yes.

Mr Phillips: The user fee comes in effect, I gather, April 1. Is that right?

Mr Marigold: The user fee is June 1.

Mr Phillips: June 1, is it? What is the practical application of that? I'm just interested in what's going to actually happen as seniors and others come to their pharmacy. Will this come as a surprise to them, or have you pretty much let everybody know that, effective June 1, they will be looking at a user fee?

Mr Marigold: I believe it depends on whether the seniors have been reading the media reports and watching the media. I would make the assumption that the ministry will send out information to seniors prior to June 1 outlining the fact that there will be the \$2 copay. Obviously, at the point of encounter at the dispensary we will be sending a claim down to the network, and there will be information coming back that we are to collect \$2 or whatever. We're certainly hoping that there will be communications to the seniors. Obviously we will be

bringing that up with the minister as well tomorrow, to see what plans there are for the communications to the seniors and the social assistance.

Ms Lankin: In fact we know at this point in time the ministry does not have all of the plans in place with respect to the administration of that and the collection of that and the relationship between pharmacists and the consumer, so there's a lot to be worked out there.

I support very much the thrust of your argument and I believe profoundly that there is tremendous cost saving to the Ontario drug benefit program to be found by following that prescription—excuse the pun—that you've set out, but also much better, higher-quality health care.

I urge the government members to listen to Mr Sands's plea to take this up and to argue it internally, because these solutions have been and are being worked on. As you've heard, the prescribing guidelines are something that had been initiated, and there are prescribing guidelines for anti-infectives and for some other sets but the process is taking a long time.

One of the reasons for that is because in our health care system doctors have been essentially at the centre of the range of professionals in the health care system, and doctors also understand that there's a shift taking place and that more of a multidisciplinary team and approach are required. Pharmacists, in terms of pharmacological care, play an important role and a growing important role—or can, if we allow that in the way we structure the system. So there are some really important changes to take place here. If too many seniors are getting too many drugs, it's because they're being prescribed too many, and the prescribing guidelines are important to have scientific and peer pressure on changing the behaviour of medical practitioners who are doing the prescribing.

The concern I have is that many of these arguments were put forward, have been in the past and are being worked on, but were put forward very clearly during Bill 26. You said we're not debating it, but we are. The pharmacists' association said: "Don't do the copayment. That's not good health care. It's going to cause those people who require but can't afford to make bad choices about their health care." I would argue it will bring down the costs one time, but the majority of the costs in the system, the new costs and additional costs, growing costs, have been from the high price of new drugs coming on to the system and the inappropriate guidelines to allow for interchangeability and other sorts of things. We really have to move to that.

They also said, "Don't deregulate the non-ODB market." Pharmacists are on the front line in the retailing business and they know that there is the potential of additional costs not just from the drug manufacturers but also—and they indicated it themselves in their presentation—in some small towns where there are monopoly situations of independent pharmacists; or from the fact that independent pharmacists are going to have to pay more to purchase it because the large chains and the large institutional purchasers have driven down their price but the drug manufacturers have got to make that up someplace, so the small independent pharmacist pays more and passes those costs on.

The government was moving very quickly and didn't listen to those recommendations. That's history. But we can still improve pharmacological health care dramatically by taking some of these steps that have been recommended here and save the government, the taxpayer, a lot of money in terms of the administration of that Ontario drug benefit program, which can be put back into the kind of health care expansions that you know are needed in other areas.

I wanted to use my time to really reinforce the message that you've brought forward, to tell you that, just on a non-partisan basis from my experience in the health care system, I believe these are really crucial developments that are being recommended. I hope you will take the opportunity to recommend that through your caucus to cabinet and in the discussions with the Minister of Health as very important cost saving measures but also improvements in the quality of health care.

Mrs Margaret Marland (Mississauga South): Wasn't it your government that took cigarettes away from the pharmacists?

Ms Lankin: Yes. I think it was a good move.

The Chair: Thank you very much. We appreciate your presentation today. Thank you for coming and spending the time with us.

COUNCIL OF ONTARIO CONSTRUCTION ASSOCIATIONS

The Chair: We now have with us the Council of Ontario Construction Associations, Paul Douglas and Frank Bisson. Gentlemen, we have 30 minutes. You can make your presentation, divide it in questions or use the entire time. It's up to you.

Mr Paul Douglas: We intend to make our presentation and then allow time for questions. My name is Paul Douglas, and with me is Frank Bisson. I am the president of PCL Constructors Eastern Inc and I have the honour to be chairman of COCA, the Council of Ontario Construction Associations. Frank is involved in many facets of the construction industry and is chairman of our tax and economic development committee.

We've both played active roles in the huge but little-understood sector of Ontario's economy that comprises the non-residential construction industry. I mention our personal, and extensive, experience in the construction industry because this committee and the people of Ontario need to know directly and urgently the sad state of the construction industry. This information can best be related by those of us who have tried to stay alive, win contracts and provide employment during the most prolonged and serious downturn in our industry since the 1930s.

Frank and I are here to let you know at first hand how difficult things really are. We are here to provide a voice for the more than 9,000 companies in 50 associations which have come together under the banner of COCA and are fighting to stay alive. As you can see by the listing of member associations in our brief, we represent men and women from all parts of the industry, contractors who provide almost 10% of all the employment in the province when times are good.

The problem is that times are not good and have not been good since 1989. In fact our industry is the only sector of the economy that has shrunk in size every year for seven straight years. We are not looking for handouts, however; the very opposite is the case. COCA has made representations to Finance ministers and this committee for years. What we have urged is the creation of an economic environment that will allow Ontario's economy to grow and expand. What we have opposed are impediments to investment, growth and expansion.

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Let there be no mistake. There is rational self-interest in what we have said. Of course construction companies can benefit in a healthy economy, but a truly healthy economy benefits everyone. That is why we cautioned about spending beyond our means and urged getting the deficit and debt under control. We warned about waste and inefficiency at the WCB and spent thousands of hours to come up with suggestions to provide security to injured workers while providing incentives to employment.

We warned about mismanagement at the Workplace Health and Safety Agency and made numerous suggestions about how to improve the safety of work sites. And speaking of safety, we in construction have put a very strong emphasis on that problem over the last decade and the incidence of lost-time injuries per thousand workers has dropped to an all-time low. We're proud of that fact but we're still concerned that our WCB costs have skyrocketed despite our success. But that's a story for Cam Jackson, whom we'll be seeing again shortly.

As members of the previous government will know, we also warned strenuously about creating an imbalance in labour relations, not because we were anti-union but because we knew that imbalance scares investors, the investors we need to get the economy growing.

There were many, many issues addressed by COCA in the past decade that cried out for attention and now we have a government that shows a willingness to deal with them all. Our intention, therefore, is to give you some understanding of the depth and breadth of the problems in Ontario's second-largest industry, to suggest solutions and to offer to help implement those solutions.

Here are some figures that should give you pause. At the peak of activity in 1989, Statistics Canada reported that there were 396,000 people who gave construction as their line of work in Ontario. Of those, approximately 360,000 had jobs and unemployment was just under 10%. In October 1994, five years later, the construction workforce was down to 352,000 and only 289,000 were reported as working. In October 1995, our workforce had dropped to 305,000 and 275,000 workers had jobs.

In brief, approximately 85,000 jobs had been lost since 1989 and just under 100,000 workers had left the industry. Those losses have been devastating. By most objective standards Ontario construction workers are considered among the best in the world, and we have lost about 100,000 of them.

Those lost jobs also indicate lost investment. The construction secretariat, a non-partisan body with equal representation from management and labour, uses a formula to estimate job creation, and that formula sug-

gests that approximately 20 jobs are created for every \$1 million invested in industrial, commercial, institutional and engineering construction.

Applying the secretariat's formula to the job loss figures, we can see that Ontario lost over \$4 billion in ICI investment from 1989 to 1995. The reality is that construction is vastly different from other sectors of the economy, and this fact has been recognized in workers' compensation, health and safety, employment standards and other legislation which makes special provision for our industry. What is missing is attention to construction's specific economic needs, and that is the principal reason we are here today.

While my own company has been doing well, thousands of my colleagues are not so fortunate. Innumerable construction companies have closed their doors and thousands of highly skilled tradesmen are on unemployment insurance or welfare. What bothers us is that no one seems to have noticed and no one seems to have listened, at least until now. We have outlined our difficulty year after year and we have made positive suggestions to the Minister of Finance to help our industry.

We are firmly committed to the elimination of the provincial deficit but we also firmly believe in the boost to the economy that results from the multiplier effect of capital expenditure in construction. In the recession of the early 1980s, the Ontario government of Bill Davis increased capital spending by 48%, and the effects on construction were not nearly so severe as they have been over the last five years.

We understand that the 1990s are different from the 1980s and the Ontario government has very little leeway with regard to capital, so what we have suggested is that the government make economies in current spending and place some of the savings into capital expenditures. But over the last many years, the government has erroneously made countercyclical current expenditures instead of countercyclical capital expenditures. To us, this is bad economics, and we know things can be done better.

I'm going to turn to Frank Bisson to give some positive suggestions, but before I leave off, I want to make an important point on behalf of our industry. Despite overwhelming evidence that non-residential construction is both very large and very important to the Ontario economy, there is no single division, department or agency in the government that champions our industry. No singular attention is given to us, as it is to agriculture, mining, tourism or even housing—industries that are substantially smaller than ours.

I invite members of the committee, especially those from the government caucus, to look at the roster of COCA member associations appended to this brief report. Every major sector is included, and within each sector are Ontario's leading companies. We have member companies doing hundreds of millions of dollars worth of construction in Michigan, Georgia, Alaska, Dubai, Palestine, Hong Kong and China. Many of our companies are sought out for joint ventures all around the world. Last year, we recommended that the government of Ontario take advantage of the knowledge and experience of COCA's experts and create a permanent panel of public and private sector leaders to make recommendations to the government regarding capital expenditures.

Such a group could advise on the role that public-private partnerships might play in assisting the government to meet its long-term capital requirements, as well as its shorter-term plans for job creation in small and medium-sized businesses across Ontario.

To be blunt, what our industry requires is to be involved on a regular and continuing basis with the Ministry of Finance and Management Board Secretariat with regard to capital planning and the economic needs of our giant industry. With respect, coming before this committee once a year doesn't seem to help our giant but ailing industry. You may have sensed some frustration in our delivery today. This very committee voted last year to accept our idea for a permanent committee to advise on capital expenditures, and I hope you will reaffirm this concept. What I ask is that we be invited down to Queen's Park to give freely of our expertise and help restore a healthy economy.

Mr Frank Bisson: As Paul has noted, countercyclical spending by government is only one side of the problem facing the Minister of Finance. The other side is countercyclical spending in the private sector. As I have done for some years now, I'd like to reflect a positive suggestion to increase capital spending without increasing either the provincial deficit or the provincial debt.

The core of our suggestion, of course, is private-public partnerships. Tony Clement and the government caucus have recently received a great deal of information on this topic from our colleagues in the Institute for Public-Private Partnerships, but for the benefit of all the members of this committee, I'd like to go over some basic points.

What we are suggesting is that the government, indeed all levels of government, seek out and facilitate appropriate capital projects that can be accomplished through partnership with the private sector—and I emphasize the word “appropriate.” By appropriate projects, we mean those that would be self-financing, in other words, truly off the government's books. We would like the Minister of Finance and colleagues to set the legislative and economic climate to foster public-private partnerships and encourage the private sector to build needed projects. Such projects could be completely off the books, as in the case of toll roads, or they could be projects that involve leaseback to the sponsoring agency.

To date, there has been only a partial response to our suggestions, and that is the Highway 407 project. But much more is needed to alleviate the crippling unemployment. What we have said for the last many years is unfortunately true this year as well: Recovery for construction is going to be a very long, slow, painful process. Reducing capital expenditures without putting in place alternative methods of financing obviously did not alleviate the effects of the recession for construction. In fact, we believe that capital reductions have actually harmed our industry.

Between 1991 and 1994 Ontario cut capital spending by almost 10%, and it cost us over 25,000 jobs. Because there was no corresponding encouragement of the private sector to make up the difference, the deficit was kept a little lower, but the result is thousands of unemployed construction workers.

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In keeping with the government's announced plans, we are suggesting that spending be curtailed in a variety of areas covered by the budget and that some of the savings be invested in construction where it is not appropriate for private investment, such as in the administration of justice.

As we have said many times, the multiplier effect of spending on construction is extremely high: \$1 million not only generates 20-plus person-years of full-time work but it also stimulates the provision of other goods and services. If we could give you but one solid example of a win-win situation, it would be the province's sewer and water services where annual savings of hundreds of millions of dollars could be realized.

One of the leading members of COCA, the Ontario Sewer and Watermain Contractors Association, has been attempting for years to impress on governments the absolute necessity of upgrading Ontario's seriously deteriorating water infrastructure. COCA naturally supports the sewer and watermain contractors in this quest, and we both lobbied strenuously for the creation of the capital corporations and specifically the Ontario Clear Water Agency.

Unfortunately, however, we have seen very little movement towards public-private partnerships in sewer and watermain development. These types of developments, by the way, would be truly off-book, in our minds. We are hoping that the recent report of the Provincial Auditor, which pointed out the serious state of water infrastructure in Ontario, will spur governments to action. This area of activity would be an absolute natural for partnerships. Not only could treatment plants be built by private enterprise at no cost to the provincial government, but movement towards full-cost recovery, raising the rates paid by consumers gradually to reflect true costs, would allow the provincial government to eliminate the current subsidization of local plants.

We realize the government's natural aversion to raising taxes, but every householder pays the full cost of heating, lighting, cable, telephone and virtually every other service, and we believe the principle could and should apply to water and waste water. The approach to full-cost recovery would have to be slow, but we believe it can be accomplished, with little pain, within a decade. By our estimation, movement towards full-cost recovery by local authorities could eventually save the general revenue fund between \$200 million and \$450 million per year. In addition, since these projects would be self-financing user-pay projects, they would be completely off the government's books and would not increase deficit or debt.

Everyone is aware of Highway 407, but the user-pay concept is the only part of public-private partnerships that has been put in place on this job. Private funding of the project is missing, and the costs of the highway are therefore on the books of the provincial government, it being a capital lease.

By contrast, British Columbia appears to be jumping into the lead in terms of public-private partnerships. The BC Finance minister was recently quoted as saying that the province is considering privately owned hospitals,

schools, toll bridges, roads and other projects. The possibilities for creativity are endless, and we implore the government to look at public-private partnerships as a way to help reduce the approximately 20% unemployment levels we still suffer.

For the last two years, COCA has called on the government to cut its operating expenses and increase its use of private sector financing to facilitate a capital budget of \$4.7 billion. This did not happen.

The details of our recommendations suggested that ministry capital budgets remain at current levels and that the capital budgets of the capital corporations be increased by \$400 million through partnerships with the private sector. With the Common Sense Revolution calling for reductions in capital spending, it is clear that you must create the environment necessary for similar investment by the private sector or we will plunge even deeper into this abyss.

By our estimation, keeping the capital budget at \$4.7 billion for 1994 and 1995 would have created 29,000 desperately needed jobs in Ontario, 16,000 of them in the construction sector. The goals we suggested would have reduced unemployment in construction by 23%. But as you saw earlier, our suggestions went unheeded and unemployment in the construction industry, year over year, dropped only marginally. There are very few large public projects under way in 1996. The trade centre and the expansion of the convention centre are the most obvious. Large private projects are just as rare. The industry overall is still in serious decline.

Another matter of great concern to contractors is the image of Ontario as a place to invest. We applaud the government for restoring balance to labour laws, for attacking waste in the Workplace Health and Safety Agency, for moving to reform the WCB as well. All of these are positive moves that help potential investors to start thinking again about moving to Ontario. For years we have called for an aggressive campaign to lure businesses to Ontario, and now Mr Harris is off and running.

We want to leave plenty of time for questions, so I'll just briefly remind you that one of the most important things you could recommend as a committee is that we in the construction industry be invited to help with decision-making regarding public-private partnerships and the whole subject of capital spending. Thanks very much.

Mr Phillips: I think the consulting recommendation is a good one and almost a no-brainer. It probably doesn't cost much money either, so it's particularly attractive.

I just want to be clear. In the Ontario Economic Outlook, it shows non-residential construction spending at around \$5.7 billion. Is that how we should think of your industry? Does that \$5.7-billion number include most of your industry?

Mr Bisson: I don't have the numbers in front of me, but just from an overview point of view, the industry we're representing is ICI, industrial, commercial and institutional, then it's quite separately the housing industry and then quite separately heavy engineering. The relative numbers are 50% to housing, about 25% of the industry is ICI, and the other 25% is heavy engineering.

Mr Phillips: Fine. In the economic outlook it shows the residential at about \$10.5 billion, \$5.5 billion for—

Mr Bisson: For ICI.

Mr Phillips: So that's your industry.

Mr Bisson: Right. You're correct.

Mr Phillips: The government spending in this area historically has been around \$4 billion.

Mr Douglas: That makes some sense.

Mr Phillips: So the non-government spending is \$1.5 billion to \$2 billion?

Mr Bisson: In that range, yes.

Mr Phillips: So government is the player in your industry.

Mr Douglas: It sure has been, yes.

Mr Phillips: Has that always been the case or is that a more recent phenomenon?

Mr Douglas: During the 1980s and when the economy was healthy, I think the balance was more in the other direction of private sector. It was evident in downtown Toronto, for sure, with all the tower cranes going; they were all private sector industry projects. Not that we expect to see office buildings jumping up in the immediate future over the next three years, even. Once growth starts coming back, residential will actually pick up before us. Once real growth happens, then we'll see the office type of market improve. We're just starting now to see growth in the private sector more on the industrial side, warehousing expansions, whether it's Toyota, Honda or whatever; those are now starting to come.

Mrs Marland: Mr Chairman, I think it would be nice to welcome a former member of the Legislature, Mr Larry South, to the committee room this morning.

The Chair: Welcome, Mr South.

Mr Silipo: Thank you very much for the presentation. I too would certainly be very supportive of your recommendation and hope we could act on that and that the government would proceed to act on that.

I want to pursue also this point of the industry and the role of government and the private sector. Your position is quite clear and something that certainly I'm interested in learning more about. I think it would be fair to say that during the last five or six years, given the decline particularly in the private sector in terms of investment in your industry, were it not for the continued investment by government—I appreciate your saying it should have been more, could have been more, but it was at least at a relatively sustained level—the industry would have been in even deeper trouble. Is that a fair comment to make?

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Mr Douglas: If capital spending is reduced by any government, particularly when the private sector is in a downturn, yes, it would have a more negative effect on our industry.

Mr Silipo: Is it fair to say that through the kind of consultation process or discussion process you're recommending to us, while obviously there'd be a lot of details to be discussed, what you're really interested in getting at is trying to sort out what areas—you used the 407 as an example of where some of that is happening in terms of the public-private partnerships. The essential point you would want to pursue, as I understand it, is to really

come to grips with where there may be other areas of private-public investments and partnerships as you describe them.

Mr Douglas: That's a key focus for sure. The other one is that when decisions are being made on capital expenditures, as we are the ones really affected and with the jobs generated through our industry, that the government have a full appreciation through our input on what projects go and what don't go and what effect that is going to have on the economy and on our industry. That should be part of the overall decision-making process that we believe is absent right now.

Mr Bisson: I wonder if I could add to that. We know that government's cupboard is bare, and we believe that if this committee was set up, we could work effectively with government and perhaps help guide it in terms of making true public-private partnerships that are off the books so we don't have the problems there have been recently, where one set of books says it's off the books and the Provincial Auditor says it's on the books and so on. There are ways of structuring contracts so that these contracts are truly off the books, don't add to deficit or debt, and the private sector finances them too without government guarantees. We would like to provide some input so that can happen.

Mr Gary Carr (Oakville South): Thank you for your presentation. As usual, it was very thorough. I know there have been difficult times, and I've sat through some of them. David's worked closely with us in the past and we really appreciate that.

I want to give you some direction and see if you agree with what I think is going to happen over the next little while in terms of some of the municipal building that needs to be done. As you know, the roads are deteriorating at a rapid rate. That is part of this whole process. The provincial government has basically said to a lot of municipalities, "You're taking care of that now," and they are under tremendous pressures as well. I don't think any of them are in a position to do any vast infrastructure building, so the way to do it is through the private sector.

It seems like a lot of the roadbuilding—I say roads, but the whole construction that will be going on at the municipal level. The municipalities will have to be doing that, and they will have to take the initiative in doing some of the privatizing and the structure. I was interested to know if you have some idea of what the framework would be that you could participate in. I say that knowing we might not even have a Metro Toronto. We don't even know what the regional structure will be.

In particular, how can we do some of the things like water and sewers, which, just like roads, need to be improved? If we don't, we're going to have environmental problems. Do you see water and sewer, for example, being taken out of municipal hands, where you would buy the services from a private corporation that would then build and you'd pay for the services? Is that how you see it working? Maybe you could give me an idea a bit more specific of how you see it working.

Mr Douglas: There are some specific examples, specific models out there now. Actually, Nova Scotia is getting to be a real leader in these public-private partnerships. One of their most current ones that's out right now

is a request for proposal for the private sector to come in and take over all their correctional facilities. They've spelled out that their annual budget is \$17.9 million and they're reducing that to \$17.2 million. "We want you to buy all our facilities. Here's the present value. Here's our needs over the next little while, which means you have to build another 300-bed prison. You have to manage it and meet these criteria."

The private sector buys it, meets the criteria, has an annual operating budget given to them transferred from the province, and the same would apply to a municipality. That is then transferred to the private sector, that now must increase the scope and manage with less money; come back with the best proposal to the province on how they're going to do that and maintain the level of services and so on.

That same philosophy could be given on areas like your sewer and watermain. There are other sectors that, if you're going to take over—Halton and York regions are proposing right now that a private sector group will come in and do a public-private partnership where there will be joint ownership of the facilities, but there will be guarantees on behalf of the operating group and the consortium to be able deliver at certain costs.

To specifically answer your question is tough. Each situation has to be examined to see whether it's a real partnership or a real turnover of the facilities. But in each case you'll be able to generate dollars for needed capital expansion and improvements, and have guarantees on caps of costs, and guarantees on rates of return so the evil private sector doesn't get too—

Mr Carr: The Ontario-federal government infrastructure program that was going to produce some of the jobs, what's happening with that? You know, the federal government's promise to create jobs through construction, with one third and one third from the different levels. What's happening with that, if anything? Do you see that as helping and it should be continued?

Mr Douglas: A number of projects were generated from that, from the trade centre that we're building right now to roads and bridges. It really ended up going to a diverse infrastructure, as it turned out. Those jobs were created, and I think they were created at a time when they were very much needed right across the country. They are coming to a close. Most of the money has to be expended by I believe March 1997, so those projects are all well under way. They were helpful to the industry.

The Chair: Thank you very much, Mr Bisson and Mr Douglas, for your presentation on behalf of the Council of Ontario Construction Associations. We appreciate your presentation.

Is there anyone here from the Ontario Coalition for Social Justice? We seem to have lost this next group. We've checked outside and we have phoned.

The committee has been so gracious and polite and behaved itself so well, and the 1:30 appointment from the Insurance Bureau of Canada has also been cancelled, so you get an extra-long lunch-hour today. We will return and reconvene at 2 o'clock.

Mr Wettlaufer: Mr Chair, do we thank Gerry and Frances and Tony for being so gracious today?

The Chair: No. Actually, I was going to thank you people for being so—

Mr Phillips: We're always gracious.

The Chair: They've been delightful.

The committee recessed from 1139 to 1400.

The Chair: I call the committee to order.

Mrs Marland: Mr Chair, could we agree to discuss this letter at the end of this afternoon, please?

The Chair: Which letter is that?

Mrs Marland: This is a letter to the deputy minister from the committee clerk.

The Chair: The one that was agreed to yesterday?

Mrs Marland: Yes. I recall one of the questions, but I didn't realize there were two questions agreed to.

The Chair: The questions come out of Hansard. If we'd like to discuss it at the end of the day, that would be fine.

INNOVATIVE PRODUCTS AND SERVICES

The Chair: We have with us Innovative Products and Services, Stuart Weinstein.

Mr Stuart Weinstein: Thank you, Mr Chairman, Mr Vice-Chairman. Nice to meet you. Isabel Bassett is my MPP. Jim Brown is in the program I'm in. It's a pleasure to have everybody here.

I'm here today to say that we have to start working positively together. The idea of bashing or blaming government doesn't work, so what I'm going to try and give to you in my presentation is a feeling and a way of working together so we can get this economy moving.

Just a word of warning: I don't want anyone to panic, but I need to show you one of the tools you're going to need for this upcoming budget. I brought it with me, so just so you know beforehand, the chainsaw's coming out right now. I'll just give you a quick demonstration, if I can figure it out without taking my hand off. Good luck with the budget.

The Ontario government can set a precedent for what we need to get this economy moving for the rest of Canada and for North America. So what I have today is a slide presentation as to some of the things that I think need to be done to get it moving.

To get this economy moving, we're going to need a combination of imagination, goals and risk, which leads to challenges, which leads to success. I'll try and give you a better breakdown of that.

Imagination: A mind, once stretched by a new idea, never regains its original dimensions.

Goals: No one can predict to what height you can soar. Even you will not know until you spread your wings.

Mrs Marland: I hope you've got the one on teamwork.

Mr Weinstein: I was going to put teamwork; it's all together. Teamwork is implied in this.

Risk: You cannot discover new oceans unless you have the courage to lose sight of the shore. That equals challenges. Anyone can steer the helm when the sea is calm.

When you put all that together, you end up with success. I never get near the whole. That is, some people just dream of success; other people wake up and actually do something about it.

The breakdown as to what I'll be discussing: the whole idea of welfare, workfare and learnfare; the whole idea of

the whole social services and the responsibility and what needs to be done; the whole aspect which is a big hot issue is capital access and what the government's role is and what we can do to get this economy moving; the whole idea of deregulating the education system so we meet the needs of the 1990s versus what's happening now; and 393 University overhaul, which I'll refer to further later.

In respect to the whole welfare payments, the whole process of social services in the province of Ontario, the concept of just giving money is not working. We need a tie-in to the kind of program that I'm in now, which is called Youth Capital Inc—and it's actually located in Mr Brown's riding—which is, instead of just giving welfare, the whole concept of a self-employment assistance allowance that ties in to training and learning to get into your own business. You're given a living allowance so you can get out there and work hard and get to a point where you can become successful. The way to do that is by working hard, working smart.

People I've spoken with, a lot of people who are single parents, when they get into a program like this they need to incorporate the idea of day care and other support services. By doing that and investing in people, we're going to get this economy moving.

I should thank Mr Spina for taking the time to speak with me, as well as his assistant, Mike Heenan. There are some people who are not going to be in a position to start their own business; the whole concept of the new system of workfare and learnfare, of taking the stigma off of being on welfare, taking the stigma away from having to get through that initial roadblock before you can prove what you can do.

In terms of the whole social services, they need an entrepreneurial overhaul. The current system is trying to be supportive, but there's no way of calling it anything else but a kick-in-the-teeth philosophy, the whole philosophy of the insults, the disrespect that the social service department gives to people, even people who take the 18- and 20-hour days trying to get themselves off the system. The concept of privatizing the whole system of social assistance needs to be revisited, because the private sector is more understanding of what it takes to become successful, whatever product it is, whatever industry it is. In fact, there are a couple of entrepreneurs within this group whose families are related. So the whole concept of starting up I'm sure you're well aware of.

Held together by the mentor, there would be that working towards, moving them in a positive environment and then getting them so that they can create jobs for other people down the road. Really, one of the largest expenses of government, and there have been different amounts that have been given, but as high as one half of any particular budget goes to any type of community and social services. There really needs to be a lot of chopping of the fat and dead wood of that department. I'm sure you're already aware of it. I just wanted to reiterate it.

Like anything else, these refer to services of the able-bodied. People who are not in a position to get out of it by just sheer effort—you need to have some safety for that. There always needs to be a bridging of the gap to getting people self-employed or to a point where they can control their own financial career.

There really needs to be—and this is the whole aspect of the Capital Access Network which I have started, from that press release that you all received—a whole revisiting of how we finance startup in the seed area. Now, I was speaking to a bank colleague, and they had indicated that New Ventures at this point has been put on hold subject to a reallocation of funds. I think that's good because the whole new youth and student venture programs all need to be merged together, and we need to look at a different way of dealing with it.

The financing option of \$15,000, which is generally a minimum to get things started, should be kept. But if you're looking at other methods of capital as well, possibly loan funds—I understand right now that this option is being looked at by Minister Al Leach at this point, and we'll see where that goes in the near future. There's the whole concept of being able to access capital at the seed level and at the early expansion level in order to move this country forward, this province forward.

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Another thing which is a real problem is the gap. Programs that are there sort of stop at age 29, and between 29 and 35 there's a real need as well to get this country moving, to get this province moving. So I really appreciate, when you're looking at revamping the systems of seed and early expansion capital, that the age limits are considered to go to at least 35. The whole idea should be focused on potential rather than current collateral.

Personally, right now I'm in a program called Youth Capital Inc, which is 21 people trying to get their businesses started. As I indicated, we happen to be located in Mr Brown's riding, so it's a pleasure. You graduate, the employment opportunities aren't there, you can't get startup capital. Even in a program like this we're still having problems with the startup capital and the early expansion capital, and that needs to be looked at.

The biggest change that I'd like to offer for the whole seed capital, early expansion capital level is that every summer, and coming this summer it will be the same thing, students aren't able to find employment. So what needs to be done and what I would like to suggest is that people who start their own business go in September, with a major course credit so they can continue keeping their business going, they can continue building it, so when they graduate, not only do they have a degree, but also they have self-employment and the opportunity down the future to create employment for other people.

I was on the student venture program twice as an undergraduate when I was at York, and both summers, at the end of the summer, despite sweat equity, I had to give my cash flow back. So what did it end up doing? It ended up that I graduated, couldn't find work, spent a year on social assistance, got into the MBA, busted myself, couldn't find employment, ended back on social assistance. And believe me, once you're on social assistance, it's very difficult to get off. So I went from social assistance, being welfare, to social assistance, the self-employment program, trying to get my business started.

Now I hit the area that I've talked about—getting access to capital. So it's a real gridlock that really needs to be looked at. There needs to be a liaison between

government and the private sector. It shouldn't be falling upon the government to solve all the problems, but once again, we need to be bridging those gaps.

In the whole aspect—and I talked about it before—of deregulating the education system, tying it in to more proactive programs, more real-life entrepreneurial and practical programs, the educational system should be taking a lot of responsibility to getting people self-employed or getting them into a system now. The way it is now, it's currently not working, in my opinion. So by doing that and being more affordable and taking more responsibility, what we're going to end up with is a tuition based on streamlined, efficient services, and that will deal with the whole aspect of tuitions going through the roof. Actually, I was going to be speaking today at a rally at Varsity Stadium, but because of conflict I wasn't able to. I was going to be indicating the same thing, that more efficiency would deal with the whole issue. I think that's really important.

Because education and training is tied in to self-employment, there needs to be a merging. We can't be having all these different processes that deal with self-employment in all different ministries. So the Education and Training ministry, a lot of that I feel could go in with Economic Development, because they're tied in together, and head into a streamlined superministry. I think that's what the government's going to have to do, one way or the other, to get the province moving so we can operate government as a business. It should definitely be earning a profit every year. It's going to take time, but we have to start moving in that direction.

As a tie-in to what needs to be done, I don't want to go into it in full detail, because I understood when I met with Mike Heenan and Joe Spina that it's going to be dealt with, but the whole aspect of duplication on a municipal level. We don't need so many mayors—six mayors, seven school boards, six library boards, six fire departments, chairpeople. There are just too many chiefs and too many Indians. We need to really, I'd like to say entrepreneurially, re-engineer, because the people who are in that position don't have to lose. They just need to be in a position where they can use their experiences somewhere else. I think that really is important to look at.

The other thing I want to touch on briefly is this whole idea of abolition of rent controls, which ties in to another system. I'm glad, actually, that it's been suggested that they move. The reason is, and this might be somewhat ironic for someone generally in my situation—I was just able to make last month's rent, so the difference between me being homeless and having a place to live month to month is minuscule proportions in any one month—I'll be the first person to tell you that rent controls and anything else that holds down the system need to go. Once again, that bridge is there. Someone living in a house doesn't worry about rent controls. Someone with a car doesn't worry about TTC cutbacks. Someone with money to go away on vacation doesn't worry about how cold it is in Toronto at any one time.

Right now in Toronto, for example, there's 217,000 people unemployed, over a million across Canada. You wouldn't see those people complaining on the other side of the fence, and a lot of people want to get to the other

side of the fence, a lot of people have the capability of getting to the other side of the fence; they just need that help to get on the other side of the fence—not to motivate them, but just give them the bridge that I'm talking about. That's why I'm saying keep up what you're doing with the vision of turning this government into an entrepreneurial, businesslike, tight, streamlined one, but please do what you can to help me and thousands of entrepreneurs like me, young, women, minorities, who can be very successful in their own businesses but just need that foot in the door.

I want to talk to you about 393 University, which people have referred to me, when I went down there, as ground zero for the entrepreneurial movement or the place to start a business. Well, unfortunately there's a problem here. The hours of 8:30 to 4 just do not handle the entrepreneurial spirit. There need to be 7 am openings, 11 pm closings; they need to be open weekends, they need to have access by Internet, by fax, by phone. You name the information superhighway and it should be connected into that area.

There needs to be more one-stop shopping. I tried to get information from Clearing the Path. Unfortunately they didn't have the time to help me or give me the information but they did have time to talk among themselves. It's the only place where I feel there needs to be a real entrepreneurial twist directly, because that's what they're supposed to be doing. The rest of the government, we talked about streamlining and we know we have to do in this budget, that we need to cut and we need to cut deep. But I can certainly tell you that this department that's supposed to encourage entrepreneurial pride, entrepreneurial ambition, does just the opposite. I think it's really important that people look at that. Right now it's not called customer service there; it's called customer disservice. I don't want to knock any specific organization or any specific part, but that place really needs an entrepreneurial overhaul.

Ms Lankin: What office is that?

Mr Weinstein: 393 University is the Ministry of Consumer and Commercial Relations, where if you start a business they're supposed to give you all the information.

It ties in, though, that once again that division should be moved out of Consumer and Commercial Relations and into the Ministry of Economic Development. We need to have one ministry, and maybe call it the Ministry of Entrepreneurship, in order to get this country moving, this province moving. I'd be more than happy at any time to come in and offer suggestions. I appreciate all you MPPs being here for me today. I want you to be able to work with me on a regular basis. I don't want this to be a one-shot deal: Stuart Weinstein, the man who came in with a chainsaw. I want it to be Stuart Weinstein, one person who wants to get himself moving and has been kicked in the teeth enough times, has taken that and turned it into a positive thing.

The press release that was given to you is this Friday, regarding the capital access meeting. I just want to reiterate that someone in a suit with words is much more powerful than someone storming the Legislature, swearing, bashing, calling names. We don't need it, it's never worked, it won't work and none of you should have to

listen to anything like that. So I applaud not having to listen to that and the opportunity of a forum like this. What I think is even more important is that there's some sort of Speaker's Corner equivalent from CITY-TV for the government. You can come in, you can put your loonie in, the money goes to—who knows?—startup seed capital, and you can say what's good and bad about the government. I cannot say this government has been anything but accessible. I appreciate Joe Spina giving me the chance to speak with him and speak with the committee today. There's no question that of all the governments I've dealt with in a long time, this one has been one of the most accessible.

The meeting is this Friday at 9:30. If anyone's available, the whole concept and the whole aspect of it is to get this country moving, get this province moving. I just started from not being able to get anywhere, speaking to other people, we got into the Globe, and I just think this is something we have to start working together on. But it won't work if the communication channels are closed and it won't work unless we keep it in a win-win situation.

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I just want to finish off by saying that I appreciate the government taking the time today and I appreciate being able to address future members of cabinet. The idea of being able to see where this country is going and where this province is going is extremely important. We can break the gridlock; it's extremely important to break the gridlock. I'd like to work with you to do that and I applaud your attempts to finally start doing that. Thank you very much.

Ms Lankin: Stuart, I appreciate much of what you've said and had the opportunity, when I was Minister of Economic Development and Trade, to work on a number of these issues. I think your comments about Consumer and Commercial Relations are interesting, the problems that you faced. We worked to establish with the federal government the Canada-Ontario Business Services Centre, which is designed to do exactly what you said. It has phone, FaxBack, all of that, for information to entrepreneurs starting a business.

The terminals for starting up a business—you criticized that they weren't all in the self-help centres. That was particularly done in conjunction with the Economic Development Council of Ontario, municipalities and others who wanted to see this in places in municipalities where they were working with entrepreneurs in their community as well, not just provincial government offices. So it was seen to be sort of a mix and a range.

On the issues of access to capital, again you've hit a really big problem right on the head. We had meetings with the Canadian Bankers Association in looking at that. We put them together with small business. There was some exchange which brought together 200 or more CEOs of small, innovative growth firms where we know the majority of the growth potential for jobs in the future is. We looked at a number of issues where they're facing barriers and started the process of creating the networks and links to training, on marketing, on exporting, on access to capital, all the stuff that you're talking about. That unfortunately has been put on hold but would be a good thing to continue with.

The community loan funds and the community investment share corporations—the legislation we passed as a government is there. Communities are able to move ahead and do that. It needs an advocate inside government to see that continue and I hope it will.

You've touched on a number of things that are important to continue working on and very important in terms of responding to needs of entrepreneurs. I believe that entrepreneurs and the small, innovative growth firms are where we need to concentrate; it's where I think you could see a growth over a two-year period of 200,000 jobs in our economy quite easily—high-tech companies, small, innovative growth firms.

I don't have any specific questions for you. I really do appreciate your presentation and will take an opportunity to read through it, as well as having enjoyed your verbal one. Thank you.

Mr Weinstein: I appreciate that. I just want to say that I'm trying to do this as an advocate, but I'm also trying to get my career going. There's only so much you can do for nothing. I'd be very happy to just blend into society and be able to do, but it's been long unfortunately that things haven't been done and I want to work together but keep it as a win-win situation. I appreciate your comments. Thank you very much.

Mr Hudak: Thank you, Mr Weinstein, for your presentation and for the card you dropped off in my office. Was I the only one who got a card?

Mrs Marland: Yes, and I'm feeling very upset.

Mr Weinstein: I apologize. Isabel Bassett and Ms Marland, I am sorry. I didn't know that you'd be subbing, but I'll owe you both cards, believe me.

Mrs Marland: Nothing to do with gender, is it?

Ms Lankin: No, but it sure has to do with political party. I didn't get one.

Mr Weinstein: You got one. I sent everybody one.

Mr Hudak: Joe's already spoken to me about your ambition in entrepreneurship and I salute you for that. I have a couple of quick questions about small business in the modern economy.

The equity sector had about \$10 billion a year for the past five years, and a substantially higher proportion at the federal level. When the government enters into borrowing to finance expenditures at that level, what kind of effects does that have on capital for small businesses? I'm just wondering, if the government borrows to a large extent, takes a larger chunk of existing capital in the economy, does that mean there's less capital available for you to finance your businesses?

Mr Weinstein: I apologize, I'm not exactly sure—currently it costs as much to write a loan at a higher level, for say \$500,000, as it does for \$5,000, if that's what you're asking. I apologize if that's the—

Mr Hudak: No problem. Maybe I'm not making myself clear enough. If there's a given level of capital available in the economy through banks and such and the government enters into borrowing, takes a substantial proportion to finance expenditures, if the government borrows at a rate of \$10 billion a year, I would think that would mean there's less capital available for small business startups. Does that make sense?

Mr Weinstein: This is another colleague from my program, so if she has the answer, by all means.

Ms Angelita Elliott: Good afternoon, ladies and gentlemen. My name is Angelita Elliott. I'm a young entrepreneur too and a full-time student. I'm here today to address several different things.

I believe, to answer your question, yes, there will be less money available for young entrepreneurs like myself. One of the things we face is that our youth is being held against us and that we don't have any stable financial backing. So whenever the government puts up a certain amount of money for businesses and for entrepreneurs, they are leaving young entrepreneurs like myself who are in no financial and economic stable situations to really back whatever loans we would be pursuing.

I think it's very, very important that the government assist young entrepreneurs like myself and Stuart, because we are tomorrow's economic strength of the country. Right now, youth in general are in a lot of turmoil because of the lack of interest within the overall community for their future and what is good for them or not good for them. I find that a lot of young people, if they have more of a positive outlook for their future and for the community they live in, they will take a greater interest in doing the best they can to become full citizens in the community. But when they're faced against economic downfalls and cutbacks in educational funding and recreational programs and all the rest, they have little positive outlook for their general surroundings. So therefore they find themselves doing other things to make time for themselves.

If we don't invest in young people now and get them on the right track, we're going to pay for it later as an overall society. If you calculate how much it takes to keep one person in jail for one year, it would be feasible for the government to spend \$3,000 or \$5,000 now to put that person in a better position not only within the community and the society but for himself. Once you have self-confidence and once you know that you have a good objective in life, you are more prepared to face whatever obstacle you might encounter in the future.

The government has to think about this. This is not a situation that can be resolved overnight; this is a long-term situation that has been going on for years. The young people have been getting the brunt of all the economic cuts. If we save one young person today, it'll save us hundreds of thousands of dollars tomorrow. So I think that it's very important to get your perspective in order.

I'm a young single parent. I go to school full-time. Most of the funding that I had an opportunity to get a few years ago in order to help myself and put myself into a better position has been cut. Now I have to think about sharing the small amount of money I do have to get to school, to get my children to school, to exist and try to get myself into a better economic situation.

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As far as funding for young people right now as entrepreneurs, most of us can't find that initial investment we have to put up in order to incur the loan. Also, another thing we're facing with all the funds out there is that they're broke and the governments are not putting anything back into that pot. So there are many young people out there who want to do better and can do better

who do not have the opportunity. Also, corporate Canada has not assisted young people or young entrepreneurs to look towards a brighter future. I think it's everyone's responsibility here, mine as well as every young person and every adult person in this society, to help each other, because if you don't do it today, you can bet your last bottom dollar that tomorrow you will be paying for it some way or another.

Mrs Marland: I feel like I want to applaud.

Ms Bassett: Yes, me too.

Applause.

Mr Monte Kwinter (Wilson Heights): We don't have enough time, unfortunately, but I want to really support your enthusiasm, support what you're doing. But I think there's a kind of naïveté here. You know, it's interesting, the Minister of Economic Development, Trade and Tourism stood up in the House and said economic development cannot be created by government assistance, period. That's what he said in a statement.

I wrote a letter to the deputy minister saying: "If economic development cannot be created by government assistance, what kind of boondoggle are you running over there? Why don't you send everybody home, turn out the lights and save the taxpayers of Ontario a lot of money?" There is a ministry over there whose sole purpose is to help economic development and yet the minister says that is not the role of government.

But the concern I have is that when you talk about the Capital Access Network, you're really talking about startup risk venture capital. You're not talking about capital per se. There is no shortage of capital in the market. As a matter of fact, there's lots of funds available looking for investments. The problem you have is that no one is prepared to give you any money because you have no track record, no seed capital, no equity, and you're saying to them, "Give us money so that we can go out and do our thing because we're going to be great." That is a huge leap of faith for investors and for governments, and most moneys being put out don't belong to the people who are doing it; there are other investors who are looking for a return and looking for some security to that return.

So we as a government, and the government before us, had programs, the venture program, we had programs for entrepreneurs, but they are very, very high risk. I remember as the minister when the Ontario Development Corp told me that their bad loan ratio was somewhere around 4% or so, I said: "That's too low. You should be risking more money because the banks' attitude is 1.5%, 2%. You should be up around 7% or 10% and it doesn't matter if you're losing. If you're not losing money, you're not doing your job because then you're just replacing the banks, whereas you should be providing capital for this risk."

How do you do that in this economic climate and with this particular government? And I'm not trying to be partisan. I'm just saying they've made a decision that government has no role to play in these sorts of things, that you've got to go out and do your thing and, "Sorry, we don't have any money for you."

I support the thrust of what you're doing but, as I say, unfortunately this isn't the 1950s with a Mickey Rooney-

Judy Garland movie where, "Let's get some drapes in the barn and let's put on a show and let's save the town because we're young and we're enthusiastic and we're going to do it," you know, and at the end of the movie they do it. That is not what happens in the real world.

Mrs Marland: Monte, you didn't mean to deflate them, did you?

Mr Kwinter: No. I just wanted to bring a tone of reality to what they're talking about.

The Vice-Chair (Mr Tim Hudak): Thank you very much for your presentation.

ONTARIO ASSOCIATION OF CHILDREN'S MENTAL HEALTH CENTRES

The Vice-Chair: The next group is the Ontario Association of Children's Mental Health Centres. Please introduce yourselves for Hansard and then begin when you're ready.

Mrs Sheila Weinstock: I'm Sheila Weinstock. I'm the executive director of the association.

Mr Larry Elmer: I'm Larry Elmer, president of the association.

Mr Rod Shantz: My name is Rod Shantz. I'm the secretary-treasurer of this association and I'm a citizen member. I'm also a board member of one of the major children's services organizations in the province.

Mr Elmer: We're pleased to be here to have an opportunity to speak to this committee about children's mental health. I'm not here this afternoon as a carpenter defending his trade, nor as a doctor protecting her profession. I'm here to speak on behalf of a population of children and youth whose lives are profoundly affected by emotional and mental brokenness. In the province of Ontario, 110,000 children are served by children's mental health centres annually.

Government decisions must be driven by the factors influencing the future economic viability of the province, and we are here to emphasize the fact that it makes good economic sense to invest in children's mental health. The children of today will become the workforce and leadership of tomorrow, and if they are to succeed in those roles, they will need to be confident, flexible, and adaptable. It is incumbent upon us to provide them with the resources they need to develop those skills: good education; effective, affordable health care; and access to supportive programs to help them deal with their mental and emotional problems which would otherwise impair their capacity to learn and develop. It is critical, therefore, despite constraint and cutbacks in public funding, that we continue to invest in the mental health of our children, your future taxpayers.

We must do all we can to enable our young people to overcome mental health problems so they are free to focus their energies on growth and development. Family breakdown, school failure and criminal behaviour are all costly social problems and are linked to mental health problems and traumatic events in childhood. When mental health problems escalate into major societal problems, we face a human disaster and an avoidable financial loss.

Services for children with mental health problems have never been on the public agenda. While the health and

education of children have always been topics of public debate, children's mental health has traditionally been treated as if it were a private matter. We know, however, that the mental health of children and youth directly impacts the quality of our family life, the safety of our schools and streets and the future costs of health and correctional services.

Allow me to present a snapshot of children's mental health in Ontario. Ontario is fortunate in having a specialized system of mental health services for children which offers a range of treatment programs designed to respond quickly and effectively to the needs of each child and family. Province-wide, more than 110,000 children are served by children's mental health centres annually, most of them as outpatients in community clinics who are in their homes, many in day treatment programs, which combine treatment and classroom learning, and some require a residential setting.

The impact of these programs is being monitored by an outcome measurement system. Through these data we know that children involved with children's mental health centres have extremely high levels of emotional disorder and that treatment in children's mental health centres is associated with a substantial reduction in these disorders. Only one child in 10,000 is as disturbed as the children entering residential treatment, and they come with conditions which are unlikely to improve without treatment. These are the children who overburden teachers and cause chaos in the classroom. They stress their parents to the breaking point, and contribute disproportionately to the violence in our communities. All too often their problems, when left unattended, explode into our headlines. Truly, these are not kids with runny noses or broken arms, these are seriously challenged individuals.

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By providing help to these young people as soon as their problems are identified, we give them a chance to turn their lives around and become contributing members of their communities.

And now the good news: The good news is that children's mental health is low-cost and good value. Children's mental health services are exceptionally good value for funds invested. In 1995 the cost of providing service to 110,000 children in 97 children's mental health settings across Ontario was less than the budget for one large, urban hospital. Children's mental health services are community based, and the majority of the children are served as outpatients in community clinics or in their homes. Day treatment, residential services and prevention programs are also offered, and the average annual cost of service in a children's mental health centre in 1995 was less than \$2,500 per child.

The cost of this treatment needs to be compared with the cost of not helping troubled children and their families. Children who do not get the help they need are likely to require more costly services as adults. For example, it costs \$45,000 and up annually to keep an offender in prison. Doesn't it make good business sense to spend \$1 today and not \$100 tomorrow?

A word about sound management: Children's mental health centres place a high priority on sound manage-

ment. The services of children's mental health centres in Ontario are provided in accordance with a demanding set of standards of excellence which have been refined over a period of 15 years by experts in the field. A provincial accreditation program requires compliance with these standards which promote effective, multidisciplinary treatment and achievement of desired outcomes for clients.

Faced by diminishing resources over the past few years, children's mental health centres have managed, within their budgets, by changing their treatment models to reach more people. Agencies are finding efficiencies by sharing resources with others and by restructuring their overall administrative systems.

Before closing, let us look at the impact of reductions. Cost savings and sound restructuring are fiscally responsible and reflect sound and creative management. However, it must be recognized that fewer services and fewer options are now available to children. The cumulative impact of reductions across the ministries is creating a truly alarming shortage of supports to children and their families.

The Ministry of Education, for example, and school boards have been cutting back on support services to children with mental health problems in the schools, and recent reductions will likely increase this trend. This will place enormous pressure on teachers who have an obligation to provide the best education they can for the majority of students.

The Ministry of Health funds some children's mental health services through hospitals in some areas, but there is no consistent approach here. Recent announcements to reduce funding to hospitals may well affect these programs since they have not been a priority to the ministry.

Public health and other programs which support children are funded through municipalities, but this varies across the province. Many voluntary agencies providing important counselling and community support programs for children have been dependent on municipal grants. All these will suffer as a result of recent announcements.

The cumulative effect of all these changes is that families, schools and physicians who are searching for help for children with problems will find fewer and fewer resources. Children's mental health centres, under the Child and Family Services Act, offer such a resource, but they too are at risk. All of this comes at a time when there are more than 6,500 children awaiting, sometimes up to six months, mental health service.

The Ministry of Community and Social Services is struggling with how to continue to fund children's mental health services, which are not mandated, and this in a ministry facing major financial pressures and already carrying the legislative mandate for social assistance, child welfare and young offenders. They are in the process of defining their core services and restructuring plans, and we want you to join us in urging them to establish children's mental health services as a priority and a distinct function. Treatment services to children with emotional and behavioural problems must not be allowed to inadvertently disappear, only to be re-created again at a greater cost in response to a public crisis.

Funding decisions are being made by all these ministries in isolation from one another, and the cumulative

impact of these decisions on the overall children's mental health service capacity cannot be planned or predicted. Efficient and effective coordination is currently impossible. Each ministry is leaving children's mental health services to the others, but there is no one there with a mandate to take responsibility.

In closing, what can be done? There are two fundamental problems which make effective planning for children's mental health impossible, and both need action from the provincial government. Firstly, there is no mandate for children's mental health. Secondly, there is no one minister responsible for planning these services across the ministries or accountable for their overall impact. There is no legislation which mandates children's mental health services in Ontario, and not one department in the entire government which claims children's mental health as a priority. Our children's education is assured through the Education Act, and their physical health through our health care system. However, there is no parallel mandate for the mental health of children.

Government must leave behind the silo mentality and create a comprehensive system capable of planning and coordinating all children's mental health services. In the case of children's mental health, restructuring is not the issue, but rather structuring for the first time all children's mental health services under a single authority.

Finally, our recommendations to government.

Firstly, invest in children's mental health. It makes good business and budgetary sense. It is that ounce of prevention.

Secondly, establish children's mental health as a distinct function, and don't let it fall between the ministerial cracks.

Lastly, identify a single cabinet minister accountable for children's mental health services.

If nothing else, from a service and a budgetary perspective, these make good common sense. Thank you.

The Vice-Chair: Thank you. This leaves us about four minutes each for questioning, beginning with the government side.

Mr Carr: Thank you very much for your presentation. You mentioned that the waiting list is 6,500. I'd heard it was as high as 10,000. Has it come down, and why did it come down, in your estimation?

Mrs Weinstock: The waiting lists have varied over the years. The reason it's coming down is because many organizations have stopped keeping waiting lists. In others, the numbers of children who are being served have gone up, because agencies are working with children in groups. They're trying very hard not to have waiting lists, recognizing that it doesn't help these children. They've come up with new and better ways of working with larger numbers of children. So that's a reflection of agencies adapting to the current situation.

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Mr Shantz: I'll give you a specific example. I mentioned that I'm on the board of a large Ontario agency. When I joined that board four years ago, we were serving 1,300 families annually, and in 1995 we served 4,700 families. We did that with a reduced budget and with a slightly reduced staff; different treatment methods, not as many intrusive cases that are kept inside a home.

Mr Carr: You talk about coordinating, and as you know, this is the same with Health and Comsoc with all these issues. But in terms of children's mental health services, where do you think they should be: Health, Comsoc or Education?

Mr Elmer: That's a very difficult question. Perhaps we know some of the history of the issue, that children's mental health formerly was with the Ministry of Health and then was severed from that some years ago. I think the issue is an enormously complex one and it's one that if the government takes very seriously our recommendations that it all be brought under a single umbrella, we would be more than willing to work with such a group and establish a proper home for children's mental health centres.

Mr Wettlaufer: I'm quite interested in mental health because many years ago I was involved in the Kinsmen organization, which set up a number of facilities around our community, and that's where it all started, with the Kinsmen Club. Along with the facilities that the Kinsmen have set up, there's also a private home in our community, in Kitchener, and it does an exceedingly good job with these mentally retarded children. Do you see a place for private centres?

Mrs Weinstock: The agencies that we work with are all non-profit agencies, but we work very closely with the private agencies as well. I think there's room in the community for all kinds of services.

Mrs Marland: I just would like to ask you very directly, because I recall when Cam Jackson would stand in the House year after year and say that he had a tremendous concern because of 10,000 children on waiting lists—and I commend you for what you've been able to do in terms of servicing 4,700 with fewer resources: Are you concerned about the fact that servicing our debt now costs over \$9 billion and that if we didn't have that debt, we would have \$9 billion to spend on services such as you're here advocating on behalf of? I guess the bottom-line question is, are you concerned about the deficit that faces this province and do you agree that if we don't get that under control, we will have fewer and fewer resources for the children for whom you are concerned and for whom we are concerned?

Mr Shantz: We're absolutely all of us concerned about the debt. We don't want the debt, and we understand it. I think I can safely say that all of our member agencies understand, and the people who serve on these boards. I retired from 35 years in an industry, in the oil industry, and I went on to this board. It's all volunteer, and each one of these boards will have usually 15 members. Most of the people there come from the business community and understand very clearly the fiscal problems that this province has.

Mr Kwinter: Thank you for your presentation. I'm curious to know one thing when you talk about children's mental health. Yesterday we had a witness who was obviously disabled, and other members of her particular team of presenters were complaining that "disability" was being redefined, as to what is a disability. I can tell you that there was no doubt in any of this committee's mind that the woman appearing before us was disabled. But when you talk about children's mental health, it covers a

pretty broad spectrum of mental aberrations, if you want to call it that.

I'm just curious. With no real ministry taking charge, first of all, how do you capture your client base? How are these people diagnosed? What is the range of diagnosis that categorizes those people with a mental health problem and how do you deal with that?

Mrs Weinstock: That's a very big question to answer in a very short time. All I can tell you is that children's mental health centres are multidisciplinary. They have the staff with the knowledge and the expertise to measure the problems and to determine what can be done and also to measure the effectiveness of what's being done. I think perhaps I could give you some material at a later date that could give you more detailed information.

Mr Elmer: Certainly, in terms of developing a client base, referrals are obviously from parents first and foremost, and school boards and physicians.

Mr Kwinter: And the law.

Mr Elmer: And the law; thank you.

Mr Phillips: I won't get you involved in the political debate that you can see going on here about, are you concerned about the \$10-billion deficit? If I were playing the game, I would say, does your organization support taking \$5 billion in the tax break, or should we be taking a portion of that to ensure that we provide adequate services? But that's unfair to you, so I won't ask you that.

Mrs Marland: It's not fair to me either, Gerry.

Mr Phillips: If you persist in saying to the group, "Do you understand why you're going through all this pain?" I insist on saying that \$5 billion of the pain is to fund a tax break, and the more you make, the more the tax break. So I just think we all have to understand the priorities of the government.

But the challenge for us all, I think, as we move to community-based care and things like that is that it becomes far more difficult for governments of any stripe to keep track of the impact of that, because it is out there; you've got 100,000 young people involved in your program here spread right around the province. You talk about measurements here. Is there any tracking that your organization does that can throw up for all of us the caution signals, the red signals, as we're heading down this new route, and can you share with us any of those now? I suspect we may very well see you a year from now at these hearings as well, and it would be useful if you can provide us with measurements of how well we're doing or how well we're not doing.

Mrs Weinstock: We have, as I mentioned, a system of measuring the impact of services. It's a system that's based on the Ontario Child Health Study, an epidemiological study which indicated that about 18% of young people have some kind of mental health problem. We've taken that system and used it to measure the level of functioning of the children who come into centres, and again the level of functioning when they go out. It also compares the level of their functioning with the average child who isn't in a centre.

The important thing, however, is that this government has not stated that it cares about children's mental health, that there is no stated priority, there is no sense that this

is something that the government cares about and is willing to look at the most efficient, effective ways of dealing with. That's really what we're here to ask you for.

Mr Phillips: That's at least one thing we can do.

Ms Lankin: I appreciate your recommendations. I certainly am aware of the debate over the years about the consolidation of children's services—not just mental health services, which is a big piece of what needs, certainly as a first step, to be consolidated, but the debate that's taken place in government and in the community around that. In particular, I recall after the Premier's Council report some very active discussions in the last couple of years that I was in government about even the possibility of the creation of a children's ministry. There are pros and cons in terms of how these things get organized, and I think you're right that that's a discussion you need to be part of that needs to take place.

One thing I caution you on, though, and you may have heard this already: The buzz out there is that the Ministry of Community and Social Services is being looked at potentially with a view to taking out some parts of it and farming them out to different areas. The word on the street is that the income support programs, which would be family benefits and general welfare, might be moved over into a finance and/or employment kind of ministry and that the children and family services and the children's mental health services might be moved over into the Ministry of Health.

From one point of view, in terms of some step towards your rationalization, that might be an interesting prospect. What I urge you to keep your eye on is the budget, because we've got a commitment that the Ministry of Health budget will be flat-lined or capped or enveloped at \$17.4 billion or \$17.3 billion, and there's been \$1.3 billion cut out in hospital services. The speculation is that that's going to get built back up with taking some portions of Comsoc's budget and moving it over, which actually will mean less for everybody when you put it all together. So it's a big caution for you.

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I don't have any specific questions for you. I appreciate your presentation. I would like to ask a question of the clerk and then perhaps the committee could discuss it at a later point.

When we were asked to provide names for expert witnesses, it was in light of an expectation of pre-budget consultations that actually would have been focused on information from the Ministry of Finance on revenue projections and expenditure projections, which we don't have. So this has turned into, I think, a different kind of pre-budget consultation. I think issues like this group brings forward around, with a shrinking pie, where the priority of government expenditures is, is perhaps one area left to us as a committee to comment on.

It strikes me that there's someone out there quite credible on this issue. I'm thinking of Dr Fraser Mustard, who's done a lot of research about children and what we need to be doing in terms of support for children and what we risk in costs in services in the long run if we don't. I think that he might be actually very helpful to this committee and I just put it forward as an idea or

suggestion. Could the clerk inform us tomorrow if there are any potential time slots not taken up, and particularly if there is a way of working in a 45-minute time slot. If each of the parties could think about that, maybe we could, as a three-party committee, consider requesting Dr Fraser Mustard to come forward to talk about this issue of, within a shrinking pie, what priority you put on children and why it's important for us to consider doing that.

Mr Elmer: This is the best news we've heard in a long time.

Ms Lankin: It's a request, so maybe you could do some lobbying of the committee members.

The Vice-Chair: Thank you, Mr Elmer, Ms Weinstock, Mr Shantz, for your presentation.

ONTARIO SOCIAL SAFETY NETWORK SOCIAL PLANNING COUNCIL OF METROPOLITAN TORONTO

The Vice-Chair: The next delegation is the Ontario Social Safety Network. Welcome to the standing committee on finance and economic affairs.

Ms Susan Eagle: My name is Susan Eagle. I am the chair of the Ontario Social Safety Network. I have with me today Andy Mitchell, who is also a member of that network but is also working with the Social Planning Council of Metropolitan Toronto, and they are sharing our time today. This is a joint presentation from both organizations.

First of all, I want to thank you for providing us with this opportunity to present to this legislative committee today. Opportunities for consultation and input into the government decisions which affect people's lives so profoundly are a fundamental principle of social planning and a minimum requirement for a functioning democracy. Democracy does not begin and end on election day.

The Ontario Social Safety Network is a province-wide organization which was formed to inform communities across Ontario about changes in the social programs that make up our social safety network. The network includes low-income individuals, anti-poverty groups, faith communities, people with disabilities, labour organizations, legal clinics and social service providers. In fact, we have about 470 members, of which 356 are organizations, and we connect directly to 71 communities across the province and indirectly to many more. Part of our goal is to build linkages between communities around social issues.

The Social Planning Council of Metropolitan Toronto is an independent social policy research, planning and public education body. The council, in partnership with other community organizations, undertakes research and policy analysis and sponsors community forums. I might say they have provided much useful information for our organization, the safety network, and many other community groups.

While we are alarmed at the speed and size of provincial spending cuts to date, perhaps as disturbing has been the process by which the province is being transformed. As we mentioned at the beginning of our presentation, consultation and input are minimum requirements for democratic government. Massive spending cuts have been

announced outside of a budgetary process that would allow for greater public input. Indeed, many cuts were announced before the Legislature was even in session. This means that many cuts have been announced without the scrutiny that the Legislature or the budgetary process permits. Many groups have sought opportunities to make their views known to the government, without success.

Often, the policy changes implemented by the government have had consequences opposite to those intended. The cuts in welfare benefits, for example, were promoted as a cost saving measure and a way of discouraging dependence. As recently as yesterday, the Minister of Community and Social Services repeated the offensive and unproven notion that welfare promotes dependency. The government's own research reveals that people are on social assistance because of unemployment. Most people on social assistance, including single parents, have recent work histories and are on assistance because of job loss due to the recession and economic restructuring. Most people on assistance are doing everything they can to get off assistance.

Perversely, the cuts have forced some single parents to leave school in order to find a job, any job, to provide adequate support for their families. If they were allowed to complete their education, their chances of finding better jobs would be greatly improved and their chances of needing support from social assistance in the future reduced, enabling them to provide better support to their families and to pay more in taxes; or perhaps it was a father who was forced to turn down a job promotion which would have helped him get off assistance because after the benefit cuts he could no longer afford child care.

Similarly, the province's workfare proposals may interfere with people's attempts to find real jobs. In a recent meeting with leaders of the Anglican and Roman Catholic churches, the Premier referred to the "unintended consequences" of the dramatic cuts in provincial government spending. We wonder if these are the unintended consequences the Premier was referring to. Perhaps the unintended consequences include the numerous people who are losing their shelter because of social assistance benefit reductions, the increasing numbers of families and children in shelters, the growing numbers of people forced to go to food banks. We would like to hear further about what those unintended consequences were that the Premier referred to.

There are numerous examples of how thoughtless cutting for cutting's sake results in short-term gain but long-term pain, as the costs of a growing social deficit are imposed in the form of growing social polarization, a less safe and stable community and lost productivity. The government believes that future generations will thank us for eliminating the deficit, but it is unlikely that they will thank us for leaving them with impoverished schools, non-existent or degraded health care and public schools and poor job prospects.

The government campaigned on a platform of fiscal responsibility and austerity. We know that the deficit and the accumulated debt cannot be ignored, but we would like to point out that the deficit belongs to everyone in Ontario. If it is a problem, it is a problem for all of us. The deficit cannot be blamed on runaway social spending, yet the measures the government has undertaken to

correct the province's deficit situation have been primarily at the expense of the less fortunate.

The largest spending cuts have occurred in programs which benefit the most vulnerable: social assistance, housing and users of social programs. Cuts which affect middle-income groups may simply show up as disguised tax increases in the form of user fees, which they may avoid where they can by not using the services.

Social assistance benefit cuts alone account for \$1 billion of the approximately \$5 billion in cuts announced to date. More will be cut through eligibility restrictions. The 21.6% cut in social assistance benefits is equivalent to a tax of that magnitude on social assistance benefits. But instead of suggesting a comparable tax on everyone else of that magnitude to erase the deficit, the government is instead proposing to cut taxes on others, and in a manner which will disproportionately benefit the more affluent.

Mr Andy Mitchell: We believe that a balanced and rational approach to public finances requires that we engage in an honest appraisal of Ontario's fiscal situation. A hysterical campaign to characterize all government spending as out of control is not going to advance informed public debate about the role of government or the proper financing of that role. Instead, it simply feeds on a program of thoughtless cutting and tax revolt.

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When you actually go to the figures, it shows that Ontario's spending has not risen wildly out of control and is not high in relation to other provinces in Canada. Ontario's expenditures per capita are lower than the average of the other provinces and territories and have been lower for over 20 years. Similarly, our expenditures, as a percentage of provincial GDP, are lower than the average of the other provinces and territories and have remained relatively constant over time. The rise in expenditures that has occurred in the past few years is due to the recession which began in 1990 and the resulting unemployment and should be of no surprise to anyone.

Ontario's own-source revenue is also lower than that of other provinces, both in dollar terms per capita and in relation to provincial gross domestic product.

It's our position that the income tax proposal that the government is pitching will be unfair in the first instance and will not create the numbers of jobs that they suggest it will.

Over time, the Canadian tax system has shifted more of the responsibility of financing public programs onto individuals, while the share of total taxation from corporations has fallen. Coupled with this has been the tendency towards making the tax system more regressive by flattening the income tax structures and raising more revenues from consumption taxes. As a result, the overall tax system in Canada today is basically proportional, which is I think something not everyone understands. The rising taxes paid by the middle- and lower-income groups in Canada, coupled with their falling earnings and job insecurity, are the source of resistance to taxes and calls for tax reductions.

During the election campaign the government promised an income tax cut of 30%, which would cost the govern-

ment about \$5 billion. If this promise is implemented, as I said earlier, it will make the tax system more unfair and will not generate the 725,000 jobs that the government has promised it will.

It will be unfair because our estimates show that a simple reduction in Ontario income taxes will tend to benefit the more advantaged over the disadvantaged. Households with incomes over \$95,000 make up less than 10% of all households in Ontario, yet will receive nearly one third of the total benefits of the tax cut as proposed.

The tax system in Canada, as I said, is already roughly proportional, and income tax is the only progressive element of the tax system, and a cut in income taxes will simply make the tax system more regressive.

An income tax cut will not create jobs. The planned tax cuts will be matched or exceeded by spending reductions in other areas. These represent direct losses of income and employment for those people directly affected, and in reduced economic activity because of the spinoff effects.

These spending reductions fall most heavily on lower-income groups, while the tax cut will disproportionately benefit upper-income people, as I said earlier. The research that we've undertaken at the social planning council shows that households with incomes under \$30,000 spend nearly 95% of their after-tax income, while households with incomes over \$80,000 spend only about 60% and save the remaining 40%. Because upper-income households tend to save a significant part of their income, a tax cut will have a more limited effect on consumption than would a tax cut for lower-income people alone.

In addition, one of the consequences of globalization and new production technologies is that increased consumption can easily be met from existing capacity here or internationally. So even if there is a desired increase in consumption, it's by no means certain that this is going to result in jobs here—or anywhere else, for that matter.

Widespread fears about job and income security suggests that people will not use a tax cut to go on a spending spree. They are more likely to save it for contingencies or to pay down their debts.

Lastly, to the extent that municipalities are forced to introduce user fees to pay for public goods, this will further undermine any possible stimulus from an income tax cut.

If the tax cut is unsuccessful in creating jobs, it will simply result in increased inequality and a worsened provincial deficit. The argument for a tax cut plays on the myth that only money spent by individuals creates jobs while money which is spent by government is by definition unproductive and does not create jobs.

I also want to take a moment to point out that, in many ways, the budget cuts undertaken to date undermine voluntarism.

Like many governments today, the provincial government is urging individual citizens to volunteer or give financial support to the services which governments are no longer willing to support. In the November 1995 Fiscal and Economic Statement the Treasurer said:

"I ask all Ontarians to consider what they can do directly to support health care, community services,

education and cultural institutions in our communities. Each of us has the opportunity to make a difference—by volunteering our time, our skills, or our financial support. Together, Ontarians can give back to their communities far more than government can provide alone.”

These comments reveal a serious misunderstanding of how the voluntary sector actually works. Voluntarism works in partnership with the government sector. Volunteers cannot operate in a vacuum. Volunteers operate within the framework of community-based services, which are presently at risk because of government funding cuts. Even if an individual's desire to volunteer is strong, without funded community agencies there will be no organizational base to recruit, train, organize, coordinate and screen volunteers.

Inequality, as I've been talking about, has already grown substantially in Ontario. Employment and earnings are increasingly polarized between those with good jobs and high earnings and those with poor jobs or no jobs and low earnings. As a result, income inequality among families with children is growing rapidly, especially in market income. Only the existence of transfer programs has somewhat modified this trend, but it's precisely these supports which are presently under attack in Canada. The government's initiatives will only exacerbate this trend, whether through increased unemployment or the proposed tax cut.

Widening inequality is not simply undesirable from the point of view of exclusion and marginalization of growing numbers of Ontario residents. A growing body of economic research suggests that widening inequality undermines economic efficiency and productivity as well. Contrary to accepted wisdom, it is those societies which deliberately intervene to prevent too much inequality which have better growth and productivity records.

Ms Eagle: In conclusion, we call on the government first to stop its one-sided and unfair approach to deficit reduction and the targeting of the poor. We call on the government to reconsider its ill-advised income tax cut; it will simply exacerbate the deficit without substantially improving employment. If the government wishes to boost purchasing power where it is needed the most and where it will have the greatest economic impact, it should restore the incomes of Ontario's lowest income residents, people on social assistance.

We call on the government to stop undermining the legitimate role of government by portraying taxes as a burden rather than the price of living in a civilized and democratic society. We receive good value for the money we pay in taxes. In comparison to our American neighbours, we are far better off.

We call on the provincial government to act as an advocate on behalf of Ontarians in negotiations with the federal government and not simply endorse the budget cutting of the federal government and the downloading of federal fiscal problems to the provincial governments.

The solutions to Ontario's deficit lie in addressing the problems of poverty and unemployment where they begin. Some require the active leadership of the federal government, while others are within the power of the province. For example, provinces can ensure adequate employment standards. Conventional economic wisdom, which dictates that higher minimum wages will destroy

jobs, again seems to fail as the evidence either doesn't support this contention or suggests the opposite. Minimum wages have been allowed to decline substantially in real value, which has simply subsidized the emergence of the “bad jobs” economy without eliminating unemployment.

The province can also play a leadership role within the Canadian federation to encourage a strong federal government role in shaping national standards in social policy. To devolve this responsibility to the provinces is to invite unhealthy competition among provinces to provide the lowest standards; in fact, a race to the bottom.

Mr Phillips: One of the things that's of interest to people is that it appears the number of people on social assistance, what's commonly called the welfare rolls, is dropping. It's been declining steadily for the last six months, as I understand it, in spite of the fact that there are still not that many more jobs, so something's happening. Why is it that we're seeing fewer people on social assistance?

Ms Eagle: First of all, there's always a turnover in social assistance caseload, a constant turnover. I know that from serving on the province's advisory committee on social assistance legislation. We were looking at the data over a number of years. There's constantly a turnover. What's happening right now is that as some people are going off, the ones who would be coming on and who need to get on aren't getting on. That's one of the things we're starting to see happening.

Let me give you an illustration. Right now if you lose your job, if you're fired, you have to wait three months to get on social assistance. I'm a community worker. I've had people in my office in the last week who are desperate. They lost their job, but because technically they were fired, they are not eligible for social assistance. So they're not going to show up for three months on the welfare rolls, but they're out there. They're struggling; they're going hungry; they're not paying their rent for the next three months; they're going to be homeless; they're going to be in the shelters. You're going to find the cost of them down the road all over the place. Those are some of the people who aren't showing up right now because of the way in which we have changed the regulations for people's eligibility. So some come off; others who should go on can't get on.

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But there are a number of other things in terms of people who have been pushed off who previously had been eligible, some around the spouse-in-the-house kind of thing, people who were eligible for a minimum amount of assistance, and when the benefit levels went down, they were pushed off. The reason they were getting the minimum amount of assistance was so they could continue getting the drug card, so if they were single parents they'd be able to pay for drugs for their children. They were getting like \$2 or \$3 a month, but that made them eligible for the health card. With that 21% cut, they're gone. Those people are also desperate. A huge drug bill and they'll be back on assistance, because they can't keep themselves—

Mr Phillips: Let me interrupt you. We run out of time here very quickly.

Ms Eagle: I'm sorry, but they're some of the—

Mr Phillips: It would be very helpful, I think, to our committee if you can quantify that, because I think we're all wrestling with what's happening out there.

Ms Eagle: It's not because they've got jobs.

Mr Phillips: But I was just saying, if you can quantify it for us and say, "Listen, there's X, X, X." I don't think—at least we don't know what's happened, and you're an organization that—

Mr Mitchell: We have some guesses as to why this is happening, and Susan has described one. And there's a package of regulatory things that have meant more people are ineligible who might have been eligible prior to the regulation changes. The rate cuts have simply knocked some people off. The number of applications is down for reasons we don't understand. Presumably if all these people were getting jobs, they'd be affecting the number of people on the caseload, not just those who no longer have to apply. So we simply don't know enough.

I think your question is a good one. Maybe it should be put to the minister himself, because the ministry is the group that's in command of the information. They're the ones who can do the follow-up and find out what's happening to people. They're the ones who are in command of the resources, who can undertake this research. We can make educated guesses and we know a lot from people we talk to in the community, but only the government can answer it authoritatively, I think.

Ms Lankin: The question you raise around the income tax cut of course I think is a troubling question for many of us. I think the government itself is struggling with what model to come forward with. There have been real legitimate questions raised about whether 30% across the board is going to be stimulative, because it has the effect that you talk about in terms of providing a greater proportionate share of that returned dollar to high-income people, as opposed to some kind of tax change which affected to a greater degree lower-income people, where any disposable income tends to go into the economy more. Those are real questions that I think are out there.

I guess my concern is embarking at all upon a tax cut at this point in time when there is still the issue of an outstanding deficit, when we're looking to try to deal with the deficit and we are concerned about debt interest charges and about starting to pay down the debt. The only way to finance in the long run that tax cut is by greater expenditure cuts. So I think we get past cutting the fat—the old analogy—and get into the bone unnecessarily.

It's not that I think there isn't a tax burden that people have felt or that there isn't a resistance to paying more taxes or a demand for more efficient services for the taxes that we pay. I knock on doors in elections and I hear what people are saying. But this to me feels like it's the wrong time, like there is no guarantee even from the minister of a stimulus effect. We're going to pay more interest charges to borrow the money to do that and we're going to cut deeper in the long run.

Could you comment about what an alternative model might look like to propose to the government, because this committee is going to have to be making recommendations. We know the government's way out there on that

commitment, but I for one would like to try to give them room to change their minds on that one promise, because I think it's very damaging to the economy.

Mr Mitchell: We share your reservations. Suggesting a tax cut is problematic because of the deficit problems that you've identified, but it also feeds on this myth that people are overtaxed and they're not getting good value for their money and therefore they deserve a tax cut.

I balance that with the observation I made that it is lower in modest-income people who have seen their taxes go up quite a bit and it is the insecurity that they're experiencing that kind of feeds into this revolt against taxes. That being said, I think maybe what needs to be done is something that makes people feel like they have some security, some place in society, and they probably wouldn't object to taxes.

A specific model is a difficult thing to come up with. We confined our comments to pointing out who has suffered the most so far as a result of cuts, and if you want to restore stimulative power where it's needed most, to the people who have suffered the most, then it's those people on social assistance—who, by the way, wouldn't benefit at all by a cut in income taxes in any way, shape or form.

So I think an income tax cut is a problematic thing and I'd be hesitant to even go so far as to recommend one that's strictly a credit to low-income people, but that would be the only conceivable thing that could be tolerable because it would rectify the lack of progressivity in the income tax system. I share your reservations.

Ms Bassett: First of all, thank you for explaining your point of view to us. I think I heard as you began—but I've been so caught up in everything else, if you can just clarify—that you did agree that the deficit is a problem. I'd just for the record like to know.

Ms Eagle: We've never said that the deficit was not a problem. I think the place where we would disagree is how you solve the problem of the deficit.

Ms Bassett: Exactly. That's what I wanted to move on to. Could you give me some advice, and I know again you've said it in many things, but to take back to the minister on what we could be doing better or how we could be cutting up the pie? Where are we going to get the money to pay for the people who are on a much lower income?

Ms Eagle: First of all, one of the things we have said, and our organization has also made presentations to the federal finance committee, again in the area of revenue, is that we don't believe cutting social programs is necessarily the answer at all. We think you have to be looking at the revenue side of bringing in the money you need for the programs that you need to have.

We realize that the province has more limited access to revenue. On the other hand, the province could be doing far more in advocating around its needs in dealing with the federal government. In fact, we think there's been some complicity here in terms of simply giving in to that move towards cutting programs and not looking at revenues. The province has not stood out and said, "Wait a minute," and challenged the federal government. That would be one thing. Andy may want to add a couple of more things.

Mr Mitchell: Just to reiterate that if we agreed in our presentation that the deficit is a problem, I presume all those people who would be the beneficiaries of a tax cut would agree as well and would forgo their tax cut to help correct the deficit. A tax cut should probably wait until the deficit or the debt is not a problem, is under control.

Ms Eagle: We're aware too that it isn't just personal income tax that needs to be looked at. We're aware that as a country we're one of the lower-taxing jurisdictions for corporate taxes. There are a number of places that we could be looking at revenue, and not just increasing individual income tax.

Mr Wettlaufer: I'd like a clarification, if you don't mind. You say Ontario is one of the lowest areas for corporate taxes?

Ms Eagle: Canada.

Mr Wettlaufer: Wrong.

Ms Lankin: Absolutely right.

Mr Wettlaufer: Absolutely wrong.

Mr Mitchell: No, this comes under—

Ms Eagle: Ministry of Economic Development, Trade and Tourism competitiveness reports.

Mr Wettlaufer: Anyway, I won't get into an argument with you on that.

Ms Lankin: Look at the government's own statistics and reports.

Ms Eagle: Let me provide you with something that comes from the government of Canada, comparing Canada to seven other countries, and Canada is the lowest in the corporate taxes.

Mr Wettlaufer: Canada is.

Ms Eagle: That's what I just said.

Mr Wettlaufer: Ontario, I said.

Ms Eagle: I didn't say Ontario. I said Canada.

Mr Wettlaufer: That's why I asked for the clarification.

Ms Lankin: Take a look at Ontario's nine corporate income tax rates.

Mr Mitchell: Federal and provincial.

Ms Eagle: Andy's done some research on those.

The Vice-Chair: Ms Eagle, Mr Mitchell, thank you very much for your presentation today. I regret our time has expired.

Ms Eagle: Andy has done some research on Ontario if you want to take a look at it.

The Vice-Chair: Again, thank you for appearing before the standing committee.

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Mr Phillips: Mr Chair, maybe we could request the ministry staff to give us the corporate tax rates for Ontario and Canada, a comparison. That may solve the challenge. Is that all right with everybody? Everybody is in agreement with that?

The Vice-Chair: Any discussion on that?

Mrs Marland: What did you say?

Mr Phillips: We'll ask the Ministry of Finance to give us the relative corporate tax rates. Mr Wettlaufer I think indicated that Ontario's is, I gather—

Mrs Marland: I think it's in the material that was presented to us on Monday.

Mr Phillips: That's baloney, actually; there was no material on Monday. If you can find it on Monday, I'd like to see it.

The Vice-Chair: Seeing no agreement—

Ms Lankin: Wait a minute. We don't need agreement to ask a question of the ministry for information. I'm sorry, Mr Chair; I don't believe that there's all-party agreement required. If we have a question, that can be placed. If in fact it's not placed on behalf of the committee, certainly we can ask the clerk to forward that request for information on behalf of the Liberal Party or the New Democratic Party, if the Conservative Party doesn't want to join us in the request for that information. But I would object to us not being allowed to ask questions of the ministry through the course of hearings.

Mrs Marland: Well, that's what I want to discuss about this letter later on, because you can ask for information, Frances, at any time.

Ms Lankin: Exactly, that's the point that I'm making.

Mrs Marland: But we have a letter here that says on behalf of the standing committee—

Ms Lankin: I'm talking about right now. I just heard a ruling from the Chair that said because there was no agreement the question wouldn't be asked. You can make your point on that later, Margaret; I might even support you in terms of how it's worded, in terms of what the history was. But if a question is placed by a member of the committee, either through the clerk's office to the ministry for information following up on this or to legislative research, it does not require all-party approval.

Mrs Marland: No, it doesn't. You can ask a question whenever you want.

Ms Lankin: I'm looking for the Chair's ruling, Margaret, not your permission, with all due respect. The Chair made a ruling. I'm objecting to the Chair's ruling.

Mrs Marland: I'm helping you, Frances.

Ms Lankin: Well, talk to him.

The Vice-Chair: Perhaps we could defer the discussion to after the presentations today. This group's been waiting and we're already about 10 minutes behind in the presentations, so the Chair would like to defer discussion of this issue to after the presentations.

ONTARIO RESTAURANT ASSOCIATION

The Vice-Chair: Our next delegation is from the Ontario Restaurant Association.

Mr Paul Oliver: Good afternoon. I am Paul Oliver, president of the Ontario Restaurant Association, and with me today are Rachelle Wood, our director of public affairs, and Dave Beatty, a McDonald's owner-operator from Brampton and a member of the association.

On behalf of the association, we are pleased to participate in the pre-budget consultations regarding the development of the 1996 provincial budget. We welcome this occasion and see it as a great opportunity to outline a number of issues which we believe are important to Ontario, important to consumers and important to Ontario's foodservices industry. We will try and limit our comments so as to leave as much time as possible for questions and answers at the end.

Our submission is relatively self-explanatory. Recognizing the immense amount of paper you receive, we have this year tried to limit our comments and recommendations to a few succinct briefing notes. It's a unique concept.

In developing our submission, we have recognized the financial constraints placed on the government of Ontario and the overriding goal of the government to create new jobs and work towards balancing the provincial budget. What we have done today in our submission is outline a multistep approach which we believe will help stimulate growth in the foodservice industry, create sustainable jobs and do this all at no cost to the government of Ontario. In fact, not only will there be no cost to the government; there is potential revenue generation in the area of half a billion dollars.

First, I would like to take this opportunity to walk through a few of the charts that were handed out, which will give you a bit of an understanding as to where our industry stands today in Ontario. The charts are under the Foodservice Facts thing.

The first one just gives you a bit of an outline as to the market share for the commercial restaurant sector. It's quite diverse, but it's probably broken into four dominant categories of licensed and unlicensed establishments, contract caterers and takeout-home delivery establishments. In total, the industry does over \$10 billion in sales in Ontario.

Market share in Canada, as you'll see, has been declining steadily since 1989. Today we represent about 36% of all food dollars spent in Canada, the restaurant sector, and that's down from 42.4% in 1989. This decline actually parallels very closely the introduction of the GST in Canada, which has had a very detrimental impact on our industry. While we've seen the decline in market share, we've also seen a decline of about 40,000 jobs in the foodservice industry in Ontario since 1988.

On the next page, you'll see the Canadian-American comparisons of food market share. What you'll see is that actually the Canadian numbers paralleled very closely to our counterparts south of the border up until 1989, and subsequent to that, while the American trend has continued upwards, to 44% today, we are now 20% below that, at 36%. One of the major issues that's contributing to that, because the dining out patterns, expenditure patterns, consumer expenditure patterns are very similar in Canada and the United States, is the impact of the GST coming into Ontario and into Canada.

On the next chart you'll see just the growth for the industry and you'll see that our industry took a substantial, and I mean very substantial, hit in 1990 and 1991 during the recession in Canada, with a combined decrease of about 16.3% over a two-year period. We have yet to recover all of those sales across Canada in real-dollar terms. The next page outlines Ontario's, actually an even deeper decline of 21% between 1990 and 1991. We've had a bit stronger growth in Ontario coming out of the recession, but the numbers are still very, very weak compared to the period going into the recession, and we're still looking at the year 2000 before we see a recovery in those food-dollar sales.

The next chart outlines the impact on individual operators. This is where you can really see the impact. For the last five years, foodservice operators in Ontario have suffered under a per-sales decline every year. Even while the sales in the industry were declining, we still saw a number of new establishments opening. The

numbers speak for themselves as to how precarious a position some of the operators are in.

The bankruptcy numbers in Canada re-emphasize that. What we've seen this past year in 1995 is actually an uptick again in bankruptcies in the foodservice industry. As the industry is a bellwether of consumer spending and consumer confidence, it does not bode well for the overall Canadian economy or the Ontario economy.

People see the industry, they see it everywhere, they think it's a very profitable industry when in fact it's not. This gives you a bit of an indication as to the average of establishment in Ontario, which does \$375,000 in sales. Average profitability at the end of 1995 was 5%. That leaves the operator with about \$18,750, and from that is their profit, return on investment and take-home pay before taxes. So the ability of many operators in the industry to continue to sustain themselves is very limited.

At this point, I'll ask Rachelle to discuss in more detail some of the specific issues that we want to raise.

Ms Rachelle Wood: The first initiative we would like to recommend action on is the implementation of video lottery terminals in Ontario's licensed bars and restaurants. We estimate that the implementation of video lottery terminals will generate between \$700 million and \$1 billion in new revenue for the government of Ontario and generate significant new jobs in the food and beverage industry. We believe that this is a positive step which, when balanced with social concerns, is still one which should be pursued.

We believe that by allowing VLTs into licensed establishments we will be able to substantially enhance job creation, help stabilize the licensee sector of the hospitality industry, reverse the outflow of Ontario residents to competing jurisdictions, such as Quebec and Manitoba, which already have video lottery terminals, and begin to address the massive black market which has already been developed for video lottery terminals.

Current estimates are that there are now approximately 20,000 illegal machines in Ontario, machines from which the government of Ontario and its taxpayers receive no benefit. By acting now, we will not only prevent the growth of the black market but we will create large numbers of jobs and be able to redirect the money that is going into criminal activities into the treasury of Ontario. We would therefore urge this committee to recommend that the government of Ontario move quickly to introduce video lottery terminals.

1540

The next issue I would like to discuss with you is PST-GST harmonization. From the foodservices perspective, we do not see this as a viable option. The federal government had indicated that it has plans to eliminate the goods and services tax in Canada, and we strongly support this commitment.

Since the introduction of this GST on only some foods but not other foods, the foodservice industry's percentage of the food market has declined dramatically, from 42.5% to 36.6%. With identical products being taxed differently solely because of the point of sale, we believe that this is simply an inequity in the tax system which needs to be addressed. We are particularly concerned that harmonizing with the GST will mean a massive increase in taxes on consumers in Ontario.

To be revenue-neutral on the GST tax base, the PST would have to remain at 8%. But that 8% would not only be applied to the limited base of the PST now but would be placed on a large range of new services and new products that are currently exempt under the PST. We estimate that harmonization would mean an increase in consumer taxation of over \$2.5 billion. For these reasons, we would strongly urge the government of Ontario to use the opportunity of the GST-PST harmonization talks to push for real reform to the federal tax structure and to use it as an opportunity to continue to pressure the government of Canada to eliminate the GST.

I would now like to turn over the floor to Dave Beatty, a small business franchise owner from McDonald's Restaurants.

Mr Dave Beatty: Good afternoon. The first issue that I'd like to discuss is the \$4 PST threshold. As you've all become aware, the restaurant industry has suffered tremendously in the 1990s since the recession and the GST introduction. We've never properly recovered since that time.

In 1987, a \$4 PST threshold was introduced to the restaurant business. At that time margins were healthy, the economy was growing and it was not a hindrance to the business. In the 1990s our margins have eroded a great deal. We have moved to a point where our controls, the only line left that we can attack, is the labour line. This has great ramifications for everyone.

But the biggest issue that I'd like to talk about is, first off, in my own experience over the last four years my investments back into the business have been approximately \$100,000 a year. To find the margins that I need, that started to erode in 1995 and will continue to erode greatly in 1996. The money is not there to reinvest in the business and so it won't be.

My employee hiring plans: I now have 210 employees and operate three restaurants in the Brampton area. That will be an area of my business that I will have to reduce and look at very closely. Margins are running under 2% return after debt service. Many of us are wrestling with a debt level that is much higher than I think most people realize and much higher than any personal worth.

I believe this \$4 PST threshold is a barrier that truly, if it can be moved to \$6 as recommended, or even \$5, is a barrier that has more gains economically than what would be lost from tax revenue. It would give us the capability to work our own business and manoeuvre within our own business. Entire marketing strategies are now set up at \$3.99 because we don't dare hit the \$4 barrier. I think all of you are aware that the average fast-food restaurant out there has most of its meals priced at \$3.89 and \$3.99, and customers are at a point now that we don't dare go above that level. It has not left us any room to move.

We have families walking in on us, families of four, who will split off into four separate lines to be able to achieve the sale rate of under \$4 and not have to pay the PST. The customer is dictating our market. We are in a very hostile situation and very competitive. My belief is that if gentlemen like myself are in this situation, I believe the ma-and-pa operation out there, with three or five or 10 employees, is struggling much worse. So my

thought and my wish would be that it could be raised, at least indexed with some type of inflationary rate. It would give us room to improve our margins.

The one other issue that I would like to talk about is the employer health tax. As an employer, the EHT is not only confusing and burdensome, but it significantly limits my ability to hire new people. In these hard economic times, I believe that government and business need to work together to create these new jobs. I am very supportive of the government's decision to reduce the red tape and cumbersome regulations placed on small businesses. I believe that the elimination of the EHT on the first \$400,000 of payroll is an initiative that the government can take and that will be of immediate positive effect on me hiring more people. It is for this reason that we would urge the government to maintain its election promise of eliminating the EHT on the first \$400,000 of payroll.

Mr Oliver: The last issue I'd like to touch on is that of alcohol taxation. The high level of taxes imposed by both the federal and provincial governments on beverage alcohol has placed Ontario in a very uncompetitive position relative to hospitality operators in border areas, as well as international tourism.

We have all heard many times that consumers are extremely frustrated with the high level of taxes which they pay on beverage alcohol. However, in spite of this fact, the level of taxation applied to patrons of bars and restaurants is even higher than the taxes paid by consumers who purchase the identical product for home consumption. Contrary to popular belief, hospitality operators do not receive large-volume discounts for their large-volume purchases. In fact, in Ontario today, restaurant and bar operators and their customers are penalized for purchasing beverage alcohol for resale.

While the level of taxation on beverage alcohol is burdensome for home consumers, it is devastating for hospitality operators and their customers, who are required to pay a special provincial gallage tax of 12%, which substantially increases, and in some cases even doubles, the amount of taxes that a restaurant or bar patron is required to pay. As you will see from our submission, we recommend the elimination of the gallage tax in Ontario.

We recognize that the high level of taxes imposed on beverage alcohol is designed to act as a social control, and we don't quarrel with this approach. However, what we don't understand is why identical product is taxed differently when the only difference is the location of purchase. No other jurisdiction discriminates against hospitality operators or penalizes restaurant patrons for purchasing adult beverages.

Even if our restaurant operators wanted to charge the identical price for a bottle of wine, they could not do so. They could not do so because they would be at a loss because of paying the additional 12% gallage tax.

We believe that there is an opportunity for the government to explore this tax policy, look at it as a job-creating tool and do it in an environment where there is no revenue loss for the government of Ontario. Economic modelling which we have undertaken on this issue suggests that the elimination of the gallage tax can be

done in a manner which is not only revenue-neutral for the government but has the potential of creating over 5,000 new jobs in the food and beverage industry.

Once again, I would like to reiterate our recommendation to eliminate the gallage tax and make sure that all alcohol is taxed equally, regardless of whether it's purchased at the LCBO, the Brewers Retail or in a hospitality establishment.

To recap, the Ontario Restaurant Association urges the committee to recommend a multistep approach to stabilizing the foodservices industry, creating new government revenue and creating desperately needed jobs in the foodservices industry. These recommendations include the introduction of VLTs; the elimination of the gallage tax; continuing to pressure the federal government to eliminate the GST and not to harmonize the GST with the PST; removing the EHT on the first \$400,000 in payroll; reducing red tape and regulations; and increasing the \$4 PST threshold on low-cost prepared food to \$6. This multistep approach, if implemented, would mean half a billion dollars in new revenue for the province and new jobs for the people of Ontario. As well, it would mean no tax increase to consumers.

We thank you for the opportunity of appearing here before you and welcome any questions you may have.

1550

The Chair: Thank you very much. An interesting presentation amidst a little outside music being played. Could we start the questions? I believe we can have almost four minutes with the third party.

Ms Lankin: It would be helpful if you just took a little bit more time to talk about the gallage tax in the proposal, because you still haven't convinced me on video lottery terminals, Paul, we've had this discussion so many times, so let's put that one aside. I'd like to learn a little bit more about that, because I think that and some of the other tax issues in the alcohol and beverage industry are important and raise themselves as important social issues, as well as cross-border issues and all of those other things.

Mr Oliver: We have, and I'll have it handed out, a discussion paper actually on that very issue, as well as the economic modelling that we've had done. We weren't sure if it would be of interest to the committee or not. But it virtually boils down to when a bar or restaurant purchases their product through the LCBO, they don't pay the PST at the time they purchase, but they pay a special 12% hospitality gallage tax, and then, when they resell the product, they have to build that 12% into the price plus apply another 10% on top of it, so in effect what you're getting is a 22% sales tax, and for operators, it isn't viable to continue to sell product.

We now represent, spirits and wine, about 13% of sales in Ontario. South of the border, the hospitality industry represents somewhere around 24% or 25%. It's a value added product that we're selling. Every bottle of wine that we sell isn't just taking it off the shelf from the LCBO. There is the overhead cost, there is the service, the jobs that come with it, the additional property taxes and a variety of things like that.

The modelling that we've done would suggest that if you take off the gallage tax, you're going to get a net

shift of alcohol sales of about \$100 million back into the hospitality industry, and that, coupled with the food sales that go with it, would actually generate about 5,000 new jobs, and the sales tax uptake on the resale of that actually more than covers the cost of the elimination of the gallage tax.

Ms Lankin: What happens to where you're shifting the sales from? So you're suggesting that—

Mr Oliver: You're shifting it from the LCBO or the BRI. What you have now is this person sits and they say, "Well, do I sit home and have a frozen pizza, heat it up and buy a case of beer or a bottle of wine and take it home, or do I go out to an establishment?" Our price point has just been pushed, because of the GST, the PST and the gallage tax, to a point that for a lot of people the decision is to stay home, and they're losing that value.

Ms Lankin: There's no net loss to government or to Brewers Retail, then, because you don't see an increase or decrease in sales as a result of this?

Mr Oliver: Because they still sell their product to us. What it is is the government, instead of taking their revenue from the gallage tax, they would take it from increased PST on the value added product that we're selling.

Ms Lankin: So as long as you don't put it all into self-serve operations, it will actually create the jobs?

Mr Oliver: The LLBO won't allow us to do self-serve.

Mr Joseph Spina (Brampton North): Thank you for a great presentation, because it touches on many of the points that I think are the real flash points that impact particularly on small businesses, which are the majority, I know, of your industry.

I wanted to clarify something. Rachel, you had indicated a number of jobs with respect to VLTs that would be created. What was that number, if you could please refresh our minds?

Ms Wood: It's just over 16,000 from the studies that we've undertaken and from experiences in other jurisdictions as well.

Mr Spina: Have you done a little total? If this government was to raise the \$4 tax exemption, bring in the VLTs, modify the beer and alcohol and change the employer health tax, any idea what kind of quantity of jobs we could expect from that over the period of a year?

Mr Oliver: It's hard to put a specific one in particular on the \$4 one. We haven't done modelling on that. We've done it on the VLTs, which is 16,000, 5,000 on the gallage tax. The EHT and the \$4, we would estimate probably would be in the area of somewhere from 8,000 to 10,000 jobs. So it's substantial.

In particular, what is important with those jobs that is some people look down on foodservice jobs. We in the industry certainly wouldn't do that, but it's jobs being created that disproportionately bring people from social assistance back into the meaningful workplace. The work that we've done on transitional employment shows that our industry hires 49% of all of who are considered underemployed, low-skilled individuals who are coming back into the workforce. So if you're not creating jobs in our industry, those jobs aren't going to be created out there for a lot of the ports of opportunity.

Mr Spina: I just want to emphasize that it is the lesser-skilled people who can use the hospitality industry as an entrance point into new jobs.

Mr Oliver: Yes, because we have such a wide range of job opportunities. There are high-skilled and there are low-skilled in the industry.

Mr Hudak: As you were waiting, an argument or a discussion developed about levels of taxation and the economy: Are taxes right now high enough or at a satisfactory level? In your opinion, what effect do higher taxes, whether they be personal income taxes or consumption taxes, have on the hospitality industry, especially with respect to employment in your industry?

Mr Oliver: They have a direct correlation. I didn't bring some of the work we've done on consumer expenditures in the foodservice relative to available consumer spending, but most consumers have about 20% of their dollars that they earn for discretionary spending, and that goes to industries like ours, the entertainment industry, the tourism industry, retail. If you get a 5% increase in taxes, people are still going to pay their rent. They have their fixed costs. It's going to come directly out of that discretionary spending area.

Mr Hudak: So lowering the level of taxes, you think, if you can keep them at a permanently lower level, will have substantial long-term benefits for your industry?

Mr Oliver: Yes.

Mr Kwinter: I'd like a clarification. I have to apologize. I should know this but I don't. When you go into a restaurant and you buy something that is \$4 or under, there's no tax. When it goes over the \$4, you pay a tax. Is that tax on the total?

Mr Oliver: Yes.

Mr Kwinter: So in other words, if you buy something for \$4.01, you're paying provincial sales tax on the whole \$4.01?

Mr Beatty: Yes. The way it works is, GST is applicable to whatever amount you buy in a restaurant but the PST \$4 threshold is—at \$3.99 you pay a 7% tax; at \$4 you pay a 15% tax on the entire amount.

Mr Kwinter: What I would suggest that you might look at to make it more palatable for the Minister of Finance is that they apply the same kind of formula as you're asking to be applied to the employer health tax, that there be a threshold on the first \$4—so the Treasurer's not losing anything because if you get that first \$4, he doesn't get tax anyway—and that the tax be applicable to just that portion above the \$4. So if you go to \$6, you're only paying 16 cents or 14 cents. Does that sound like something that might—

Mr Oliver: Certainly we would support either approach of moving the threshold up or introducing it as a deductible or whatever you want to treat it as, but it would apply to the first \$4. The real problem takes place when you hit that \$4.01. People do everything possible to stay below that and it's a case of even ordering your coffee separate and things like that. So if you have the threshold either as the first \$4 and it is deducted off any order—if it's \$6, you then only pay on \$2, or moving the threshold up. We are flexible on that and we would look to either one of those to address the current problem that we face.

Mr Kwinter: It would just seem to me that if you're having to pay the tax on the whole amount, there would be a real deterrent. As you say, people try to figure a way how to get around it. If you're only paying the tax on the incremental amount, then there'd be less of that tendency because the amount is relatively small and, from your perspective, as far as your margins are concerned, the larger the number the greater the margin.

1600

Mr Beatty: You're exactly right. The marketplace is so price-sensitive right now that on many of our menu meals we do not dare go to \$4.01 because the demand will drop significantly in the marketplace, and the margin is now gone at \$3.99 that used to be there.

The Chair: Thank you very much for your presentation. I apologize for the interruptions, but these things come to try us.

Mr Oliver: We have the additional handouts. More paper. I said I was going to cut the paper down, but—

The Chair: We'd be pleased to distribute those for you. Thank you very much. Ms Lankin?

Ms Lankin: Mr Chudleigh, I know there is a discussion we will be having, and I'm just wondering—if I could get Mrs Marland's attention while I request this—if we could have that discussion at an appropriate time tomorrow morning. I actually would like to be party to that discussion and I have an appointment that I have to leave to get to.

Mrs Marland: It's fine with me. Including this letter, right?

Ms Lankin: I suspect that's what your discussion was about.

Mrs Marland: That's fine.

The Chair: Could we ask the next group to come to the table while we do a little housekeeping here? Thank you very much. Yes, Mr Wettlaufer?

Mr Wettlaufer: I would just like to emphasize that the letter should not go out prior to our discussion.

Ms Lankin: It's already gone. It went yesterday.

Mr Wettlaufer: Oh, as long as the committee doesn't expect a reply then.

The Chair: That'll be the minister's decision, I would think.

Ms Lankin: With all due respect, the query with respect to the tax options was one that I read from Hansard, and the commitment of the minister. The letter went with that inquiry. The deputy minister in fact, as I saw him walking down the hall today, was on his way to have the discussion with the minister, so I suspect that we will get an answer.

Mr Wettlaufer: But, Ms Lankin, the point is that the committee is not the one that requested this information.

Ms Lankin: That's interesting. I thought Mrs Marland was specifically referring to the question with respect to the employer health tax that—

Mr Wettlaufer: That might be her point, but my point is the committee is not the one that requested this information.

Ms Lankin: So you don't want this information, is that your position?

Mr Wettlaufer: I didn't say that.

Ms Lankin: I'm asking you. Is that your position? You don't want information to come to this committee?

Mr Wettlaufer: I think we have to have the discussion first. You're putting words into my mouth. I said I think we should have the discussion first.

Ms Lankin: My position on this is, if you as a government member are going to try to influence the Ministry of Finance not to provide an answer to my question until we have the discussion—

Mr Wettlaufer: You're playing politics.

Ms Lankin: —then I would insist on having the discussion now, and I don't want to interrupt this group.

Mr Carr: On a point of order, Mr Chair: If we could get to the people who are waiting, we could do this later, if that's in order.

Ms Lankin: No, Mr Carr, perhaps you weren't listening. My point was that unfortunately I have to leave and I can't wait to have that discussion. I had suggested putting it off till tomorrow and I'm fine to do that. However, one of your colleagues has suggested that that would be reason to stop the ministry from providing us with any answer to my question.

Mr Carr: Tomorrow we'll have the debate when you're here. We'll make time tomorrow.

Ms Lankin: Yes, but not if one of your government committee members is going to be suggesting that therefore it would be inappropriate for the ministry to answer the question contained in that letter, irrespective of who the author of the question was.

Mr Carr: What do you think, that you're going to get an answer back overnight?

The Chair: I think we're aware of your concerns, Ms Lankin.

Ms Lankin: Will you assure me that nothing will be done to ask the minister to delay the response? That's all.

The Chair: I don't think I have that authority. I don't believe that will take place, but I don't think I have the authority to request that.

Mrs Marland: Mr Chair, you do have the authority to agree to the request Ms Lankin is making. She's just saying, can she have all-party agreement that this discussion that I initiated take place tomorrow morning when she's here? We all have different schedules, and I appreciate that. Let's do it.

The Chair: I think we have agreement for that. I might suggest we convene at 9:15 in order to have that discussion.

Ms Lankin: Okay, great.

The Chair: Hopefully, it will be a 15-minute discussion.

Mr Carr: Better make it 9.

OLDER WOMEN'S NETWORK

The Chair: The ladies of the Older Women's Network, Mrs Frances Chapkin and—

Mrs Grace Buller: Grace Buller.

The Chair: Welcome to our committee. We are not usually this cantankerous, so it's totally out of character

for us. It was because of the demonstration outside, I'm sure. But if I could ask you to proceed, you will have a full 30 minutes.

Mrs Buller: This is Kathleen Repka on my left. The Older Women's Network is a voice for older Canadian women. Its purpose is to overcome injustices and inequities at home, in the workplace and in society at large.

In the 1996-97 fiscal year, the Ontario government budget anticipates spending reductions of \$4.5 billion to \$5.5 billion, as well as the previous \$1.9 billion in cuts announced in July. What effect will this have on the lives of Ontarians?

The Older Women's Network is interested in society as a whole, as well as the welfare of older women. We have children and grandchildren who will be affected by these budget decisions made in 1996.

For seniors, the Older Women's Network is especially interested in funding for health care, drug benefits, housing co-op and non-profit housing projects as well as transfer payments to municipalities. The government economic statement suggests that \$1.3 billion will be saved by constraining transfers to hospitals by 4% in 1996-97, 5% in 1997-98 and 6% in 1998-99. What effect will this have on hospital care?

The aging population, especially of women, who are living considerably longer than men, will be acutely affected in their later years by the lack of sufficient care, especially long-term and transitional care. This was dealt with in the submission we presented to the standing committee on Bill 26 on December 18, 1995.

As far as the drug benefit plan, seniors on the guaranteed income supplement will certainly suffer from the \$2 cost for each prescription. Many seniors must budget severely now to pay for rent as well as adequate food. If a number of prescriptions are required, the added payment will bite severely into their food budget.

Many senior women live in rental apartments. Some of the best-maintained of these have been co-op and non-profit housing projects, where the rent is geared to income and the residents serve on committees which oversee a standard of maintenance for the buildings. If these kinds of housing are not developed with government funds, how will older women manage to live a life of dignity in their senior years?

The Chair: Excuse me, I'm sorry, but we have a disturbance in the building and they have broken through the security. I think we're going to have to suspend our committee hearing and move into recess. I believe we're to go downstairs.

Clerk of the Committee (Mr Franco Carrozza): You have to go downstairs through the tunnel to exit, please. *Interjections.*

The Chair: I doubt if we'll be back today. I think we'll recess until tomorrow morning and then we'll try to go to extended sittings tomorrow.

Tomorrow morning, we'll commence at 9:15 for the discussion, 9:30 for the first witness.

The committee adjourned at 1608.

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*Silipo, Tony (Dovercourt ND)

*Spina, Joseph (Brampton North / -Nord PC)

*Wettlaufer, Wayne (Kitchener PC)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Bassett, Isabel (St Andrew-St Patrick PC) for Mr Arnott

Carr, Gary (Oakville South / -Sud PC) for Mr Sampson

Marland, Margaret (Mississauga South / -Sud PC) for Mr Martiniuk

Clerk / Greffier: Carrozza, Franco

Staff / Personnel:

Drummond, Alison, research officer, Legislative Research Service

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**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Ted Chudleigh
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LEGISLATIVE ASSEMBLY OF ONTARIO
**STANDING COMMITTEE ON
 FINANCE AND ECONOMIC AFFAIRS**

Thursday 8 February 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO
**COMITÉ PERMANENT DES FINANCES
 ET DES AFFAIRES ÉCONOMIQUES**

Jeudi 8 février 1996

The committee met at 0928 in committee room 1.

PRE-BUDGET CONSULTATIONS

**CANADIAN ORGANIZATION
 OF SMALL BUSINESS**

The Chair (Mr Ted Chudleigh): I call the meeting to order. We have with us this morning the Canadian Organization of Small Business. We have 30 minutes for a presentation and questions.

Mr Les Solomon: Good morning. I've put out a memorandum. It's only a short two-pager. I think everybody's got a copy of it.

I'm a chartered accountant. I'm tax counsel to the Canadian Organization of Small Business. We've been asked to make a submission which we've done over the last number of years. I'll briefly touch on the points which we've raised. This is not going to take long.

Essentially, we have two problems: One is high taxes and the second is the high cost of regulation. I haven't really detailed regulation because I wanted to talk about it. Possibly I'll get to that at the end of these points.

The first point is high personal taxes. Our taxes are higher than any other jurisdiction near us. That means all the US jurisdictions which abut us. Although Quebec's taxes are coming down, our provincial taxes are going up. So there has to be some look at the high personal tax cost.

We specifically haven't mentioned corporate taxes, which are in the main reasonable. The small business tax is slightly higher than Quebec's but well in line with the US small business tax. The problem is that most small businessmen will have to live off their businesses and take the income all the way through, and the high personal tax cost flows through to them anyway.

One of the things we thought, in fact this was discussed way back when the GST was imposed, and the feds actually promised this—I remember a meeting with Michael Wilson where it was actually a tradeoff for support of the business community—was that the GST would reduce high personal taxes. That obviously hasn't happened.

One of the suggestions at the provincial level is the synchronization of the two taxes, which means the provincial sales tax would be on services as well as on goods. Somebody's done calculations. There are a whole lot of economic studies. Somebody's got a 11% or 12% combined rate, which would bring in the same amount of money. Our suggestion is that this be seriously looked at again. I know that the feds are into this; I know that the previous government had looked at it. I stand corrected

if that is not the case, but I thought they had, arising from previous meetings. It would be a source of funds.

We would actually want to widen this. The GST or combined VAT—I think we should get off the GST nonsense and call it what it is; it is a value added tax—should be on everything. If VAT was on everything, as you have in most European countries—the move in Europe is lower personal taxes, higher consumption taxes—you eliminate all the nonsense about abuse.

The abuse in the system is rampant, particularly in the GST system—all small operators and their \$30,000 limits. Compliance is difficult to measure. If it was on everything, it would be very simple because nothing more than the sales for the year would be subject to tax, period, and it could be picked off the actual federal tax return.

We've covered capital tax in the previous meetings over here. We think it's a counterproductive tax. We've given you examples, particularly in the tourism industry. Where you spend a lot of money, where you have very big mortgages, you're not making any money. You've got a break-even situation, or worse, you're losing money, and at the end of the year you're into \$10,000, \$15,000 in capital tax—punitive. The same thing applies in fact in large supermarkets, startup situations, car dealerships; we can give you a whole lot of examples.

The employer health tax is a tax. It's a tax on business. It was put in by the Liberal government. We at the time protested it. We thought it was a move in the wrong direction. The initial method was not even to tax professionals, which was absurd. They rectified that. They still have a \$40,000 base on professionals. Essentially, this is really something which has got to be covered by the whole health care costs. Health care is your biggest budget item. We think the method the government's going about is wrongheaded. You may be constrained by the Canada Health Act, and we think that it's time—we know Alberta's been trying to do this—for all the provinces to stand up and get their Canada Health Act changed.

This may not be popular, but some kind of user fee is probably going to be necessary. Some kind of co-insurance is going to be necessary. Some type of co-insurance on procedures may be necessary. It may be that if you want to have a certain kind of procedure, you pay part of it. We're not talking about catastrophic health care, which obviously must be covered, but there can be something done in the system.

We think the system which is saying, "We'll cut the number of doctors or we'll make the doctors pay and that'll reduce health costs," is doomed to failure. It's just going to degrade the system. We mentioned this.

We also think that employer health tax should be abolished and it should go back to a cost, to a premium. It is an insurance. People should buy the insurance. It should be compulsory. It should be a deduction from your salary. In the case of welfare recipients it will be a deduction from the welfare payment. People will buy it. It is insurance. Once they pay it they would know what the hell it is. At the moment there's an assumption that this is something that's provided free, but it isn't. The employers are paying for it.

Provincial finances. This is something that's worried us. This is just numbers again. The previous government led us to believe in the last economic statement that there was a plan to balance the budget, and they were into fairly meaningful spending cuts already. I think Mr Laughren was going to balance the budget roughly over exactly the same time frame as we now propose.

Our question is, given the more serious spending cuts that we now propose, why are the numbers still so fluffy? We just don't seem to see that this thing is real, that the deficit is going to be reduced, that the budget is going to be balanced. We have a question as to whether there's going to be a tax cut in these numbers. If so, fine. We are in favour of a tax cut, but it needs some more clarification of the numbers that came out of the minister's last statement.

Just as an aside, we think the minister's last statement could have been put out in January and not in December. That might have helped business at the time. It was a terrible Christmas and there was no need for it, particularly in the retail sales end.

Mr Gerry Phillips (Scarborough-Agincourt): I'm sorry. What did you say there? I didn't get you.

Mr Solomon: That was an aside. That was only a point. The point is that the economic statement of doom and gloom in December hardly helped Christmas sales.

My next point is on waste. We think the underground economy is strengthening. We think the attempts at controlling it are not working. We notice that Revenue Canada stepped up the amount of auditing, which I suppose helps. In our opinion, the only time you're going to get a meaningful move away from the underground economy is if you have a system which is perceived to be clear.

We're not advocating some kind of nonsense of a flat tax, but we are suggesting that the more you move to consumption taxes and away from very high personal taxes, the more you'll move away from this underground economy. The more you have an easily verified sales tax system, which is tied into the amount of your sales—in other words, your sales are X, the taxes Y and you should have collected it and you can measure it.

Under the existing system some goods are taxable and some goods are not taxable. With the GST you've got the patent absurdities of tax-free and tax-exempt. For example, medical supplies are tax-exempt, which means you do not get any tax credits. Other things are tax-free completely. We need a simpler system. It's quite possible to have a simpler system.

We've had discussions at the federal level. We understand that they are sympathetic to it. I think a meaningful VAT is what is needed. It's what's done in Europe. I

don't say Europe is the absolute example, but the taxing there is moving in that direction with lower personal taxes, which is something we're going to have to face up to, particularly with the move in the United States for lower taxes. I don't know how they can do it, but they're moving in that direction.

People have brought up in the past at a previous meeting a tax on financial transactions. I know the big business community is against this. We are loath to discuss it because we really haven't explored it. We wanted to cover it because it seemed to be some kind of money spinner. We think that as a consumption tax, even at a very low rate, it may be the kind of thing that governments are looking for and we suggest that at least it be examined.

We also cover the use of RRSP funds directly in small business. This is going back over the years. In fact, I remember a petition to Marc Lalonde, when he was still federal Finance minister, to do something in this regard. We got other feds with some kind of convoluted nonsense which basically said that you could invest \$25,000 in the business of the neighbour three doors down, of which you knew precisely nothing, but you couldn't put your money into your own business. But it was okay for Bay Street to take millions and billions of dollars and throw it against the wall. That was in order; that didn't hurt you. For you to buy the most shaky of stocks on the Vancouver Stock Exchange was in order, but for you to put your money in a business where you probably had a fair chance of doing something with it was a no-no.

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I know there have been some regulations and there has been some slight relaxing at the federal level. Apparently now, provided you own less than 10% of a business, you can put in up to \$25,000. In most small business situations, everybody owns more than 10%. That's why they're in the business. They started the business, they own the whole business or there are a couple of partners and they all own a third or half.

We know that, given the problems of the Canada pension plan, governments are looking for retirement savings to be the mainstay of people's retirement planning, so they don't want these things wasted. We nevertheless feel that some kind of arrangement whereby you could put up to, say, 25%—the average RRSP, if somebody's been in the system from day one, is in the order of \$300,000 which, if somebody's been contributing and earning, I get from my practice, is pretty normal. If somebody could say, "I'm taking \$50,000 or \$75,000 out of my \$300,000 to put into my business," I don't think he's worse off than having a bad deal on the stock market or putting the money in some kind of cottage. You can put it in a convoluted way. You can place a first mortgage on your own property. I urge the government to negotiate with the federal minister to relax the rules in this regard. We really think there's a very big source of funds.

Something which is allied to this which I haven't detailed is sources of funds. It is impossible for small business to get adequate financing. The Small Business Loans Act only allows it on fixed assets. If you require

funding for an ongoing business, particularly if it's a goodwill situation where you develop a computer software business or you develop any other kind of service industry, the chances of the bank's lending you money are zero unless you put up your house and everything else, and very often these situations are by entrepreneurs who do not even have equity in their houses. This is a source of funds; it is one source of funds. We could tell you to put the heavy on the banks, and all that's being done, but we have to come up and there has to be some kind of method of financing small business.

Quebec came up with its Quebec fund a couple of years back. It has been, actually, fairly successful. A lot of the small startup situations in Quebec have gone public and have been fairly useful. Something in the line of the Quebec stock purchase plan—I don't mean the trade union stock purchase plan, which has worked to some extent, but it's been an RSP deal, and frankly I don't know how much money it's really put into small business. We're talking about letting startup situations on small Ontario corporations get some kind of public funding or some kind of tax break. This is something you may want to explore. We would be pleased to explore this with your budget committee and come up with further ideas.

Finally, I just wanted to talk about regulation, which is something you haven't covered over here. The average small business has corporate taxes, has provincial taxes, has EHT, has GST, has PST, has workers' compensation, has a myriad of other damned stuff and it's becoming intolerable. Again, some move on a meaningful, smooth VAT would help regulation.

On workers' compensation, I don't know what to say. It seems to be all over the map. It's not a matter for this committee. I gather other committees will look at the workers' compensation situation, but there is overregulation; there's an overabundance of paperwork. We've mentioned this before and we really think it's time. If the government's talking about common sense, please, let's look at that one.

I thank you. That's basically our submission. I assume there will be questions.

Mr Phillips: Just quickly on the funding of health care, you're recommending here a move away from the employer health tax and on to premiums, I think, if I read your proposal correctly.

Mr Solomon: Correct.

Mr Phillips: Right now, the employer health tax funds about 10% of the health spending in the province. The plan is to move that down. The government has announced it will be cutting—I don't know the number. We will eventually find the number, I guess, but they're going to cut probably \$600 million or \$700 million out of that \$2.6 billion and bring it down to maybe \$2 billion out of a total health bill of about \$28 billion in the province. Do you still think that, as a percentage of the health funding, is too high?

Mr Solomon: We think the health insurance plan is an insurance plan. It should be actuarially calculated as to what the funding should be. The government should say what it can contribute towards it in a finite number, and

the balance should be funded by insurance. In other words, OHIP premiums may have to go up. If you want to call it a user fee, if you want to call it premiums, call it what you may, but we're saying that it's impossible to continue to run a health care system where you are constraining it from the top.

Obviously, if you're moving in the United States—I'm not saying these are models of efficiency, because I think they're wrong, but the average health care facility, what they call them over there, they're putting the pressure on costs in exactly the same way as we're trying to put the pressure on costs. This has to be done, but there has to be another method of funding this thing and we're saying there has to be some kind of user funding.

Mr Phillips: I appreciate that. One of the challenges, I think, if you look at one of our major competitive advantages for attracting manufacturing and other operations in Ontario versus the US, is that they look at their health costs and they run 7% or 8% of their payroll; here it runs 2% to 3% of their payroll.

Mr Solomon: A very good point. As a matter of fact, I heard Lee Iacocca make that exact point on American TV as to why they're building cars in Ontario as opposed to Michigan. A very good point, but we're saying the spread doesn't have to be 8 to 2; maybe it's 8 to 4. We're just suggesting that maybe we're giving them too much. That's a very good point. I think we're giving them too much.

Mr Phillips: That's one of the reasons that it's funded in the way it is. I would just say that that's a big decision, because if you say move it to premiums, guaranteed the experience is that the employees and the employers will sit down and find a way that that becomes part of the remuneration package. So you inevitably add payroll costs heading in your direction. Now, it may be wise. I have some question about it.

With the underground economy, your solution is to apply a consumption tax. Most people who have looked at the underground economy believe that when the GST came in, it accelerated the underground economy to a significant extent. Have I misread what you're recommending here?

Mr Solomon: No, that's a very good point. In fact, you're partially right. Our point is that the GST was so badly constructed that it left itself open to abuse. I agree with you the GST is being abused, and probably that's the worst possible area. I think the PST is being abused as well, if you want to ask me.

Mr Phillips: I'm sorry. What kind of a consumption—

Mr Solomon: We're saying that if it was on everything, it would be easier to police. At the moment, you've got too many excuses. For example, I gave the \$30,000 floor on GST. If you were running a small business and you were selling less than \$30,000, you don't charge GST. Now, the guy who's selling \$31,000, he's supposed to charge GST. So everybody makes sure they're below \$30,000. I think this is artificial.

Ms Frances Lankin (Beaches-Woodbine): I appreciate your presentation. I wanted to ask you about some of the statements you've made on levels of taxation, starting with your first point on high personal taxes. I was

interested in that because I think if you look at Ontario's PIT, at the top marginal rate there is no doubt we are, I think, second highest in Canada. If you're looking at international comparisons, particularly if you're looking at our main trading partner, the States, there's a very different social structure paid for by the taxes; that's true. But my understanding is—and I'm wondering if you know any figures—that if you look at the middle-income earner or if you look at the low-wage earner, in fact we are more than competitive, ie, we would be down in the lower first quartile of provinces, provincial jurisdictions, for example, in terms of taxation, PIT rates.

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Mr Solomon: You're probably right. I would say you're absolutely right. We think the top rate is too high.

Ms Lankin: The top marginal rate.

Mr Solomon: It's only the top marginal rate.

Ms Lankin: That's where over the years we've looked at those people who have the highest incomes, at putting the additional surcharges on, which is what's brought our top marginal rates up.

Mr Solomon: Absolutely correct.

Ms Lankin: Okay. Personally, if we're going to have most of our taxation come from personal income tax as opposed to consumption taxes—I understand the point you're making around that—it seems to me that this kind of progressivity, though, is a fair way to do it. Or would you like to see a more compressed PIT range?

Mr Solomon: We'd like to see a more compressed range. We do not favour the flat tax that's been proposed, but certainly something that's more compressed.

Ms Lankin: I noted that you did indicate that in terms of corporate income taxes we are generally competitive now. I know Mr Wettlaufer doesn't believe that; he challenged a presenter yesterday. But I've been spending time looking at the interprovincial comparisons, the G-7 comparisons, the US Great Lake state comparisons, and by and large we are competitive, if not slightly ahead. Is that your perception, if you look at all of the payroll tax and corporate taxes brought in together and compare that on a fair basis to the point, actually, that you were just discussing with Mr Phillips around the other kinds of payroll taxes they might have in the United States, which are employee health benefits etc?

Mr Solomon: I'd imagine that's a fair statement. We've compared it in client situations with US corporations that have branches over here, and there hasn't been any great feeling that the corporate tax was too high in Ontario, that you had to start playing games with fees and everything to move the income back to New York state. These are New York state and Pennsylvania, which are fairly high-tax states over there; perhaps Florida is a bit lower. But I don't think that's a problem.

Ms Lankin: It's interesting just on the health issue. In fact, the comparisons that I have seen indicate that in the US, a medium-to-large employer pays on average about \$4,200 a year per employee for health care costs; the cost to an Ontario employer is about \$700. So there's an advantage there. But it also actually feeds into issues of competitiveness outside of taxation. I think employers also look, if they're considering where to invest or where to site new locations, at the dollar exchange rate—all of

those things are going to factor in. But so is the education system, the quality of worker that's produced, the health of the population; those are all also factors that would go into decision-making for investments.

Mr Solomon: A good point, but I think we're too competitive at the moment. I think with a low dollar and these ridiculously low charges, we're probably subsidizing big business. I'm saying it should be at the employee level, that they know what they're paying for. Obviously it would be part of the wage package. But we're saying you don't need to go anywhere near what we're doing. There has to be a higher payment for health costs.

Ms Lankin: Tell me just a bit more about your concerns on the capital tax. In particular, I know that you're representing small business, and my understanding is that small businesses and I guess companies with gross revenues up to \$1 million are exempt from the capital tax, so it's more a larger enterprise that you were speaking on behalf of?

Mr Solomon: It's easy to get to the situation; it basically comes in at the \$3-million to \$4-million business. You buy a couple of buildings to put a plant in, you're there very, very quickly. You can put an industrial plant over there doing a couple of million dollars a year, they buy a building for \$1 million, they have a bank loan of \$1.5 million, suddenly they're into \$2.5 million worth of mortgaging and they're paying capital tax. We're not talking big dollars here. I don't think this tax brings in a lot of money.

Ms Lankin: I think it's 0.3% for that kind of an enterprise.

Mr Solomon: It's 0.3%, so they'd be paying \$7,500, and actually in a formative stage they're losing money. I think this is what's really upsetting them.

The Chair: Thank you very much, Ms Lankin. If we could move to the government side for questioning. Ms Bassett, did you pass?

Ms Isabel Bassett (St Andrew-St Patrick): Yes, I thought I did. We were going to hand it to the small business PA.

Mr Joseph Spina (Brampton North): As the PA for small business, Mr Solomon, thank you, because I very much liked some of the comments that I was hearing coming out of your presentation and look forward to expanding on that, perhaps getting some of those things implemented if possible when we can.

There are two elements that I wanted to ask you about which you may have alluded to, and it may have surfaced as part of the earlier conversation. Could you clarify for me: Is there a tax rate jump that takes place in provincial tax on small businesses that's based on revenue level as opposed to a profit level? Am I correct in understanding that there is such a jump?

Mr Solomon: There's a new tax on large corporations now, but that involves a combination of sales and assets. It's a new tax and it's a combination of \$10 million in sales and \$5 million in assets. If you have both, there's a new tax.

Mr Spina: This is a federal tax, though, is it?

Mr Solomon: Yes, which wasn't there before. That's probably what you're alluding to. We haven't felt that really hurts small business. It hasn't hurt our constituency in any meaningful way.

Mr Spina: The other element was, and this was cited to me as a restriction to growing: a typical small business: 40, 50, 60 employees. They had a fairly good profit. He said to me that he was subjected to paying tax on the entire amount of that profit, regardless of whether a portion of that was reinvested back into the company, which would give him the opportunity to expand the plant, hire more employees, that sort of thing. Is that a realistic comment on that business owner's part?

Mr Solomon: That's a realistic comment. What would help him, actually, was if he did buy a plant, he would get the amortization of the plant. What the federal government has done from time to time is it has upped the write-off rate, if you want to put it that way, on new equipment. We had a couple of years when it was up to 50%. So reinvestment on this basis is useful. That's something that should be a federal initiative, whether they want to get the reinvestments the opportunity for tax write-offs. But otherwise, his point is correct.

Mr Spina: Is there room for us to do that as a province?

Mr Solomon: Yes, it would help somewhat, I suppose, if we allowed a fast write-off of new equipment or new investment in a business. You may have to be careful how you define "new investment," that it really is going into increased inventory or increased receivables or increased equipment. Maybe stick to equipment, that they're actually putting something into the thing, and give some kind of a write-off. It's certainly possible, yes.

Mr Spina: Would it be better for us to give these kinds of incentives rather than cash grants and subsidies?

Mr Solomon: Yes.

Mr Tim Hudak (Niagara South): Thank you, Mr Solomon, for an excellent presentation, especially in terms of the burden of taxes and regulations that have been ratcheted up in the last five or 10 years at least.

A direct question: This government will be permanently lowering the level of taxation. What will be the impact of that on small businesses and also in terms of the number of employees that small businesses have?

Mr Solomon: If you can lower taxes and still balance the budget or reduce the deficit, it obviously is going to be advantageous. Lower taxes means the businesses have more money, and it's probably a generality that if you have more money, if you make \$100 and you end up paying \$25 out instead of \$50, you're more anxious to put the other \$25 back into growing. We think it will create jobs.

The Chair: Thank you very much for your presentation, Mr Solomon.

Ms Lankin: Could I ask a clarification? Was that the personal income tax cut that you're referring to?

Mr Solomon: We were talking about personal income tax.

Ms Lankin: And not corporate taxes?

Mr Solomon: Not a corporate tax; we're talking about the tax all the way through.

Ms Lankin: Right, not just what you're intending to do, which is income tax.

The Chair: Thank you very much, sir.

Mr Phillips: You know this won't be confidential any more, now it's on the record.

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FEDERATION OF WOMEN TEACHERS' ASSOCIATIONS OF ONTARIO

The Chair: We now have with us the Federation of Women Teachers' Associations of Ontario. Good morning. Identify yourself, please, for Hansard when you begin. We have 30 minutes and we look forward to your presentation and questions to follow.

Ms Sheryl Hoshizaki: You have before you a brief that's presented by myself as president of the Federation of Women Teachers' Associations of Ontario. We have approximately 41,000 members, women who teach in the public elementary system. I'm not going to read the brief to you, but I would like to highlight particular aspects of it. Although I feel like I've repeated—

Mrs Margaret Marland (Mississauga South): Sorry to interrupt. Are you Sheryl?

Ms Hoshizaki: Yes, I am, Sheryl Hoshizaki. Sorry, I forgot to give you my name.

I've presented these concepts before, before other committees. We believe the theme is rampant in what's happening in Ontario today, and that is, that there's a pattern emerging in the cost restraint measures, that this will impact on children and support services for families most drastically, and therefore affect the quality of life for children, not just today but in the future.

I will try to just outline as we go through the brief and make comments. What we'd like to say is that cutting costs in the area of children's services will not translate into savings. It will only create a society where some children will have privileges and other children will not. Unfortunately, what this government is proposing is ensuring that more children in this province will have less opportunity to lead a fulfilling and a participatory or contributory life in Ontario. This saddens us as teachers in Ontario, especially as women elementary teachers, because we feel we have the responsibility to tell you this and that you, as leaders, have the responsibility to respond to it.

As a government and as a committee, you are the leaders who must recognize that you have the sole responsibility in that you are a government of all the people who live in Ontario. You're a government for young, for old, for rich and for poor. We believe Ontario must be a decent place for all of its citizens.

Poverty is a form of violence. In fact, we believe it is the worst kind. Children who live in poverty lose hope and that is their future. They will not have opportunities to lead productive lives. It is not so simple to suggest that their parents or the adults who care for them—that all they have to do is become motivated and that children have to have the will and then that will be the opportunity for success. It's not that simplistic. There is no will to learn if a child is hungry or cold or not knowing where they will sleep at night. As teachers, we see this loss of will in children's eyes every day. Unfortunately, we see it now in more children's eyes and we see it in younger children every year. As Ross and Shillington put it, "Poverty is deprivation." When children live in poverty they cannot learn to their full potential.

We know that in assisting emerging countries, Canada has had the intelligence to set up educational programs. Why are we so hesitant in our own province to invest in the same concept at this time?

I'd like to talk a little bit about the deficit and economic recovery, and we've outlined our point of view. We'll say to you right up front that we're not economic experts, but we would also like to say, neither are you. You depend on counsel, like we do. You have opinions about economic recovery, and so do we, and I'm sure we differ on these opinions.

What we are expert in is in our field, and that is education. We say to you that to drastically decrease the cost of education will not result in the outcome you're hoping for, the simplistic view, that is, cut spending and the government will save costs, return a tax credit and stimulate the economy. In 1991, a Statistics Canada study found that it is not the expenditures that are to blame for the deficit, but the revenues, and the decrease in revenues will only result in a province with increased disparity or a range of those who have and those who have not. Yes, we want a more secure and prosperous future for our province and our children, but you do not secure the future by cutting off the present.

In our brief, we have outlined fiscal restraint comparisons of Ontario policy with other neo-conservative strategies, in particular Alberta, New Zealand and Britain. We have presented to you some examples that we hope this government is not aiming for. On page 4, we talk a little bit about New Zealand. In 1984, the unemployment rate in New Zealand was 4%; today it stands at over 16%, and it would be much higher if 120,000 people had not left the country since then to find work. Over half the country's manufacturing jobs have disappeared. Now New Zealand leads the world in incidence of violent crime and youth suicides.

A 25% cut in welfare rates drove poverty rates up by 40% overnight and one in every four New Zealand children now lives in poverty. Teachers report that thousands of them cannot concentrate because they live in poverty and are hungry. Parents must now pay for part of their children's schooling. This has created a two-tier system with inferior schools in poorer neighbourhoods and better-funded ones in more affluent sections, and it goes on. We hope again that these are not the results this government is aiming for.

We then would like you to consider other models, European models, that recognize that all people must share in the good times and the bad times equally and that there has to be a period of time for the adjustments to deal with restraint measures.

What we would like to say to you is that massive layoffs will redefine communities in Ontario. There will be no places to go to find jobs, and most of you who return to your communities will know of neighbours or friends who do not have jobs. When Mr Harris referred to this province's reckless spending, we believe this was a subjective opinion and was based not on calculation but on simple observation. We say there's just no evidence that supports this analysis of Mr Harris's, because program spending, not including capital expenditures and

debt financing, by the Ontario government increased by 66% from 1986-87 to 1995-96; over this time, inflation increased by 37% and the population increased by 17%. Thus, taking inflation and population growth into account, program spending increased by 3.5%.

Our organization fails to see how this can be described as reckless spending. What has increased over this time period, however, is real interest rates, seriously affecting the cost of servicing the debt. This, coupled with continuously high unemployment rates, has meant that revenues have not kept pace with the needs of Ontario.

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On February 6 it was stated that many of Canada's blue-chip companies are reporting substantial profits and yet are continuing to cut jobs "as if the recession never ended."

I was talking to a person from the bank yesterday—and it's a bank that has been well known to have boasted of very large profits this year—and I said to him, "Has your employee base decreased in the last month?" He said, "Yes, we're continuing to have massive layoffs." I find that interesting because it obviously fits the pattern of the larger companies in Canada.

But more importantly, David Crane states: "Anyone who cares about the future would surely know that programs for children are much more important to our future society than tax cuts for the wealthy. There are fundamental questions of priority here."

The most important part of our presentation is meeting the needs of children and early childhood education programs. Children have been described by politicians, this government and previous ones, and ones even before that, as truly Ontario's most valuable resource. Children are not renewable resources. If we don't invest in them at a young age then we lose them, in part, and as part of an educated workforce in the future.

We cannot make the mistake Alberta did when it came to kindergarten. Too many children are sacrificed. Children cannot wait for the government to make up its mind and find out a year or two years later that it should have maintained a program, for two reasons: First of all it costs too much money to reinstate a program, and secondly, those children who would have had the opportunities to participate in that program are truly sacrificed with that poor judgement.

What we're saying to you is do not cancel junior kindergarten, and although the government will respond and say, "We're not, we've changed it to a granting formula," that leaves it to a local option. We now know that most school boards in Ontario have made the decision that because of the funding they will be forced to cancel the program. The parents of Ontario do not want to see our junior kindergarten program sacrificed in the name of fiscal restraint. It would be foolhardy, as I said earlier, and very expensive to eliminate junior kindergarten and then find in a couple of years that you would like to return to it.

The debate and the research is really clear, and that is that programs for young children make pedagogical, economic and moral sense. We have examples of the impact that the loss of kindergarten has made in Alberta,

and on page 8 we have stated once again that we know what early childhood education programs do. They improve school success. The cost of public schooling is ultimately reduced. The cost reduction was found despite a lower dropout rate for those who attended preschool. The cost of adult education, when needed, was reduced. Juvenile delinquency and crime were reduced. The cost of welfare payments and Medicaid expenses were reduced; it gives you the cost of \$2,193 per person through the age of 27, and \$460 per person beyond the age of 27. These are the results of the well-known Perry preschool program, which is an American study that took place in Michigan.

Over the last decade, we have learned more about how young children than about almost any other aspect of education, which basically states that when children come to us we can identify earlier now when they are having difficulties, and we can put into place programs to ensure they get the opportunity to get assistance early enough so that they can start reading or working with numeracy much earlier in their school life. We know that this early identification is key to success at school. Those are the biggest advantages we have made in the publicly funded education system, and we plead to you that the early childhood education programs, junior kindergarten and kindergarten, are key aspects of that process.

We refer to the European attitude towards young children and the importance of young children within their governance structure. On page 9 we have outlined the investments that European countries make in young children. It is unfortunate that we have to look across the ocean for examples of adults who will make decisions on behalf of children, instead of looking in our own country.

As the Federation of Women Teachers' Associations we have advocated for a long time an integrated and long-term approach to children's services. In fact the standing committee on social development of the Legislative Assembly of Ontario issued a report in 1994, *Children At Risk*. This report called for a new vision in providing children's services, recommending the services that are preventive and integrated. Although it makes such common sense, it is so unfortunate that we have not yet seen a government that has had the will to serve children in a horizontal manner and not a vertical manner, because we know children's needs are horizontal and not vertical.

As we pass the care and the responsibility of children from one agency to another, from one ministry to another, the cost increases. We know that your investment in children through the Ministry of Education is at one level. If we lose children in the education system and they also become wards of the Ministry of Community and Social Services, we know the cost increases because it's duplicated. If we lose children under the care of Community and Social Services and they move into the Solicitor General, the costs are increased even more.

What we're saying to you now is, understand that your best investment is in education. At the same time, however, we know that an integrated approach is one in which the different aspects of children, be they social, physical, emotional or educational, are best served when you integrate services. What we're saying to you right

now is that, as educators in Ontario, we have yet to have the opportunity to work with agencies, partly because of the mandates that ministries are given and partly because there has not been given the opportunities for agencies to speak with each other, develop relationships and ensure that children's needs are met.

Throughout the brief, on pages 12 and 13, we have outlined some examples and samples of programs that are already established in Ontario, where communities have taken the initiative to bring together agencies and different ministries to work on behalf of children. However, what sometimes causes the barriers is that ministries have not been encouraged nor have they been given the paths or the avenues in which they can share financial resources to ensure that programs that are developed for children are done collectively and collaboratively.

We see this as key to serving children. We believe that integrated services for children in Ontario would be a key solution to part of the bureaucratic expenses that are now costing this government an incredible amount of money in an area that has yet to be addressed in a serious way.

We would also like to ensure that we mentioned that it's preventive programs that make a difference for children. Unfortunately, when cost-cutting occurs, preventive programs are the first to go. We have an example on page 13 of behaviour adjustment classes, preventive programs for young children, and the impact of that.

In conclusion, we would like to say that the major responsibility in raising children belongs to the parents or the adults who have the responsibilities for these children. But we know that families don't live in isolation, they don't exist in isolation, they need support systems. As parents, those of you who have experience know there are times when we need more help than others, but it doesn't mean that we exist alone. We need the assistance of agencies and of programs to help us ensure that our children grow up ready to face the world that will obviously greet them in the next 10 to 15 years.

There is a strong statement that the Metro Task Force on Services to Young Children and Families made on a commitment to children on January 11, 1996. We wholeheartedly endorse this statement and we urge this government to listen to these experts.

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When I was younger I remember talking to my mother—I grew up in Dryden, Ontario—and she would always remind me to stay in school, partly because there wasn't a lot to do in the winters in Dryden. But mostly I can remember, from a very young age, my mother would say to me that education is so important. She said it doesn't matter what the problem is, it doesn't matter what the question is, whether it's racism, violence, ignorance or illiteracy, education is the answer. It's what gives you and what gives people in Ontario their opportunities, and they give people in Ontario what publicly funded education gives people in Ontario, equal opportunities.

What we're saying to you today is that when children are sacrificed in a society, everyone pays, even though it appears only certain children may be sacrificed.

Mr Tony Silipo (Dovercourt): Thank you very much, Ms Hoshizaki, for the presentation and for reminding us

once again that whatever actions any government takes, it really does come down to a question of priorities. If we're serious about dealing with questions of deficit, as I think we all are—and in your presentation you state that we're not here arguing about whether we should be addressing the deficit, but we are in fact arguing very much about how that should be tackled and what services this government is prepared to sacrifice, particularly when it comes to children.

We are seeing the astounding situation develop in which the Minister of Education himself and the government first said they would not be making cuts to education that affects the classroom and now admit that a \$400-million cut is in fact at least an \$800-million cut. The minister said that the other day in estimates committee, and I think went as far as indicating that it would be very difficult, if not impossible, for those cuts to be absorbed without affecting the classroom, and therefore without affecting kids.

I know one of the areas the government continues to harp on, and I'm sure we'll see in the next round of cuts they'll announce next week, is attacking such things as preparation time. Again, the illusion they'll try to create is that somehow that doesn't affect kids. I wonder if you could talk a little bit about what it means when you take a chunk of time out of preparation time, what that translates to in the effect of cuts in teachers and, more important, what that means for kids in the classroom.

Ms Hoshizaki: First of all, I'd like to respond to the comment that certain cuts would not touch classrooms. I don't think that is really what the government meant. I would hope it isn't, otherwise it shows an incredible lack of intelligence around what happens in schools, if you think you can isolate classrooms from what really affects learning and teaching. I would like to presume that what the government meant was that they would decrease the cost of education with minimal impact on the learning and teaching that occurs in publicly funded education systems. I would like to add that type of intelligence to the statement.

That's why, when we extend the argument into preparation time or program planning time, that that in effect is so key to the role of the teacher and the relationship between the teacher and the student, because we know there are many things that occur during the school day. One in particular would be that of one-to-one in student assessment. The preparation time or the block of time in which teachers are given to work not only on preparing lessons, which probably is the most simplistic definition of preparation time, but on the counsel with students, with parents, and the one-to-one assessment and observation is absolutely necessary and essential to the achievement and the potential that's recognized for students in Ontario schools.

I think this government must recognize that diminishing preparation time or program planning time will in effect impact on the learning the children have in Ontario schools and that the overall outcome will be a lower standard or achievement level for students without that opportunity, where you get the one-to-one or the lower ratio of working with children.

Mrs Marland: Thank you for being here today. It's an excellent presentation. I think you're aware that the Premier, all the time he was the leader for the previous five years, was trying to establish a children's breakfast program, because he too shares the concerns about children going to school hungry. I just want to clarify, before I ask you a very brief question, you are acknowledging that the deficit is a problem?

Mr Silipo: He's the Premier—

Mrs Marland: Excuse me, Mr Silipo. I think I have the floor.

Mr Silipo: I'm talking to one of your colleagues.

Ms Hoshizaki: I think there needs to be some classroom management in this committee, but I will respond to it.

First of all, I would like to comment on the breakfast program, because that's very important. We are going to lose what we refer to as feeding programs in schools, and I apologize for that title, but that is really the title of programs. These are most often reciprocal agreements. They're with municipalities, they're with other ministries.

I can tell you very bluntly that in decreasing the transfer payments to municipalities and to other ministries, breakfast programs and other feeding programs are going to go in schools. So although Mr Harris may have been a strong advocate behind establishing children's breakfast programs, I can tell you right now there would be no hope of any crusade on behalf of these programs, considering the decrease in funding.

We have stated in the brief that we believe the deficit does have to be addressed, but what we're saying to you is that the amount of money in the short period of time will dismantle what publicly funded education means in Ontario and there will be no hope of recovering what we now have. What we're warning this government is that the risks are too high.

Ms Bassett: If I could just follow up on where you talk about the deficit reduction, you say it should be shared 50% by spending cuts and 50% by increasing taxes. Which taxes would you increase and which spending cuts would you make? The minister wants advice and that's why we value the input and suggestions you're giving. I'd like to take that back to him as his parliamentary assistant.

Ms Hoshizaki: I think what is really important is that not only should we have input but that other parts of society and other citizens should at the same time have input. What we would like to emphasize would be the process as to what part would be—we would like to share, I think, in the ideas behind what areas might be cost-effective, but what we would like to ensure is that with discussing with other partners, your stakeholders in education, that we wouldn't impact on other families just by our own decisions. What this government has done is in isolation made decisions on where in fact the cuts should be made. What we're saying is that there should be a consultative process.

Ms Bassett: You don't have a list right now.

Ms Hoshizaki: What we have provided to you is an area of integrated services that we believe is a very key solution to saving some money when it comes to cost reduction.

Ms Annamarie Castrilli (Downsview): Ms Hoshizaki, let me comment on your presentation. It was as thoughtful and well-researched a paper as I've seen, and I thank you for bringing it to us.

I was particularly struck by and I hope the government will heed those sections of the report that deal with the New Zealand experience and the conclusions drawn by the Canadian Centre for Policy Alternatives, which you cited in that study, and also with the European documentation you presented, which clearly shows that education is an investment. It's a long-term investment and in fact it is an economic lever for future progress.

The conclusion I draw from that is that if Canada wants to be globally competitive, it starts now. It does not take a short view, it takes a long-term view, and views education as a principal building block in providing that economic competitiveness.

My question to you, because time is short, will be brief. You've heard undoubtedly that the minister is now considering cuts of as much as \$1 billion in the educational sector. Could you comment on what the effects will be, one, of the \$400-million cut and, two, if that \$400-million cut is indeed extended to \$1 billion?

Ms Hoshizaki: I'd like to make two statements. First of all, I think that the Environics vice-president, Jane Armstrong, said exactly where voters are in the province and she has stated that people believe cutting government spending is critical, but they have trouble understanding how deep cuts to education and health will actually make their lives better, and I think that's very key.

1030

Those kinds of massive decreases in costs in education will, as I said before, redefine what publicly funded education means. To put it very simply, I'll paint a picture for you. A family gets up in the morning. Their children have to get to school. They go out to get the bus—no bus comes. Why doesn't it come? Because transportation cuts are going to occur. There won't be a school bus and there may not be in fact public transportation. So children have to somehow get to school.

When they do get to school, the school may be farther, because we know schools are either closing or amalgamating. If they want to see a principal, the principal could be twinned with another school or he or she could be the principal of two or more schools.

If they have a disability or the child needs help, there will be no services for children, because those are the teachers who apparently do not have classroom responsibilities and therefore they will be reduced. If the child needs a feeding program or has a lunch program and the parents are not financially able to pay to stay for lunch then some kind of arrangement will have to be made for that child at school. And it goes on and on and on.

The after-school program, the after-school care program, all those things will no longer exist. That means that family life for children, and school life, will change dramatically with those kinds of costs in Ontario.

The Chair: Thank you very much for your presentation. We'll now move on to our next presenter.

Ms Lankin: Mr Chairman, on a point of privilege—two points actually: Yesterday, after a presentation that was made by a group on behalf of children's mental

health—you were out of the room at the time, sir—I indicated that I thought it might be worthwhile for the committee to consider an all-party request to invite Dr Fraser Mustard to come before the committee and talk to us about, with a shrinking pie, the importance of investment in children.

I have been informed by the clerk that the appropriate way to do that would be to ask you, as Chair, to either convene a meeting of the subcommittee or to talk to subcommittee members to be able to give the clerk direction. I would like to raise that issue and have Ms Bassett and Mr Phillips think about that. Perhaps they could inform you whether they would be in agreement with that and then the clerk could be so directed.

The second point of privilege is—and I say this with great respect to the point that Ms Bassett made or the questions she asked. Those are useful questions to ask presenters in terms of their advice on these specific areas, but I point out again that in previous years, committee members and presenters were provided with pre-budget consultation guides which gave them information about expenditures in various areas, about revenue projections, about expenditure projections, and questions about what areas of taxation could be changed and what areas of expenditures could be changed. In a sense it's unfair to expect presenters to be able to provide us with that kind of feedback if we can't give them some of the basic detail. I'm concerned about the informed participation—

The Chair: Ms Lankin, I'm not sure this is the place for this debate. We're holding up a presenter.

ONTARIO ROAD BUILDERS' ASSOCIATION

The Chair: I welcome the Ontario Road Builders' Association, Mr Ryan and Mr Flowers.

Mr Arthur Ryan: I'm Arthur Ryan, executive director of the Ontario Road Builders' Association.

Mr Bruce Flowers: I'm Bruce Flowers, the president of Fowler Construction in Bracebridge and a vice-president of the Ontario Road Builders' Association.

Mr Ryan: With your concurrence, Mr Chairman, I'd like to read a very short brief into the record and then take questions from the committee members.

Introduction: The Ontario Road Builders' Association represents virtually all of the major firms involved in constructing and maintaining Ontario's provincial highways and municipal roads. The association was formed in 1927 and now comprises more than 170 companies in over 50 communities across Ontario. Our members represent a large labour-intensive industry, both union and non-union, working in an area which has a substantial impact on the quality of life of Ontarians and the economic viability of the province.

We welcome this opportunity to present our views to the standing committee and trust they will be given due consideration in the preparation of the 1996 budget.

Economic development: The roadbuilding industry is an important segment of the Ontario construction industry, which latter is the province's biggest industry, its largest employer, Canadian-owned largely by small entrepreneurs, pays the highest wages and is the prov-

ince's largest taxpayer. These facts cause our industry to have a substantial impact on all segments of our society.

Infrastructure investment: The present financial crisis has forced governments to look at every form of cost-cutting possible. Within the framework of cost-cutting, governments have become increasingly aware of differentiating between cutbacks in capital and operating expenditures.

Infrastructure expenditures—roads, bridges and sewers—constitute capital investment and any reduction in that investment must, for the following reasons, not be considered an easy method of cost control.

Economic benefits: Expenditures on infrastructure are a significant investment in Ontario's economy. The investment of Toyota and Honda and other major manufacturing facilities in this province was contingent upon the maintenance of a superior road and highway system which would promote both economic export of products and fast delivery of company parts. I think we've all heard of the phrase "just-in-time inventory," which is one of the common concerns that industry has today, particularly in these tough economic times.

The Common Sense Revolution plan is to generate economic growth and investment in Ontario and create more than 725,000 new jobs. Reduction in capital investment and resulting job losses seems inconsistent with that strategic plan.

Failure to develop and maintain what is currently in place will become a barrier to further economic development.

Maintaining the present system: The Provincial Auditor's 1995 annual report confirmed the province is not spending enough to maintain the existing infrastructure.

Currently, 60% of highways are considered to be poor or substandard as compared to fewer than 40% in 1979. The report confirms that the cost to renew and rehabilitate a road at its practical life expectancy is \$80,000 per lane-kilometre. If left beyond that, the cost of total reconstruction is \$250,000 per lane-kilometre.

Public safety: Poorly maintained roads are unsafe. This increases the number of accidents, which in addition to the human toll further drains our tax dollars and increases the cost of owning and maintaining a vehicle.

I think you've probably all heard, just digressing for a second, comments that have been made by the Better Roads Coalition of Ontario Inc which represents the users of the system, which effectively is the Ontario Trucking Association and the Canadian Automobile Association, and I think we've all been aghast at what's been happening in terms of truck safety and truck wheels coming off, but in all honesty some of those problems, as much as the burden's been placed on the trucking industry, are caused by the quality of the highways and the roads we have in place right now and this was never the case in previous years. So it's very important that we address that problem and understand that from the safety aspect the condition of the highways in this province right now is a major consideration to the public at large.

Economic impact: Infrastructure investment as a percentage of total expenditures by governments has decreased continually over the past years as governments have apparently taken an easy method of cost control.

The road-building industry directly employs 20,000 people in Ontario. These are full-time jobs that add a significant purchasing and tax base to this province.

Multiplier effect: Every dollar spent in construction results in an additional \$1.50 spent in the general economy. This is a multiplier effect of 2.5. No other sector of our economy has such a significant, labour-intensive immediate effect.

There are certain statistics to relate to investment in manufacturing facilities and they have a certain multiplier effect, but nothing as large as our industry has. The beauty of our industry in a sense is that it has an immediate impact. When you build a new highway system, immediately those jobs are created. When you build a new manufacturing facility or lend moneys to companies who are going to invest in this province, it's a long-term process. When you spend moneys on highways, it has an immediate economic impact. It generates jobs and it generates an extraordinary amount of jobs in ancillary industries in an immediate sense.

Private sector: The anomaly of our industry is that we are the private sector working with public funds. Our industry produces at an extraordinarily low cost. The Ontario Ministry of Transportation's tender price index shows that prices have only increased 17.7% in the last 14 years. This is in spite of the ministry turning over more responsibility to contractors, in spite of major inflation costs of approximately 70% over those same years and in spite of additional government-legislated costs.

1040

We have details here, and I won't burden you by specific details, but looking at the price increases of 17.7% over the past 14 years I've made reference to, for the first six or seven years prices were dropping because of the shortage of funds and because of the competitive nature of our industry. They have gradually come back a little, but the moneys being spent by the road-building industry are still on a comparable basis much far below the inflation factor that has been accumulated over the past 14 years. That's very important. In other words, any money spent by the government which goes into our industry which is in effect the private sector is an excellent return on investment at a very, very low cost.

Summation: The government's commitment to cost reduction is commendable and we support that view. However, as an industry of primarily local entrepreneurs operating in the private sector, which has over the years developed and maintained a highway and road system which is the envy of the continent, we are confused when an administration promotes "open for business" and at the same time creates an aura of uncertainty which will result in unprecedented layoffs in our industry.

At this point in time, for the current fiscal year our industry's contract awards are at the lowest they have been in the last many years. In appendix A you will see the breakdown of comparable allocations of moneys that have gone over the past five or six years. As a province, we must not allow our highways and roads to deteriorate. We must heed the warning of all sectors—the industry, the Provincial Auditor and the safety advocates. Investment in infrastructure is not an expense. It is a capital

investment in our future with tremendous economic benefits.

"Open for business" of necessity requires a first-class transportation network. We urge you to provide and maintain that network.

Now we'd like to take any questions you may have.

Mr Douglas B. Ford (Etobicoke-Humber): Welcome, gentlemen. I see in your summation here that the government's commitment to cost reduction is commendable. Our opposition doesn't think there's any problem with the debt in this province.

Ms Lankin: Oh, Jesus.

Mr Ford: Maybe you have different opinions of this because they created that huge debt, and we are saying this to you this morning that—

Mr Silipo: When did we say that?

Mr Ford: May I have the floor, Tony, please?

Interjection.

Mr Ford: Tony, you get your turn and I'll interfere with you.

The Chair: Could we have order?

Mr Ford: We were supposed to have a meeting at a quarter after—

The Chair: Excuse me. Mr Ford, you're asking a question, please.

Mr Ford: Yes, I am. What I would like to say is, we are trying to reduce this debt so we get the economy back in good shape. I would ask you if you think that is a fair assumption to try to get the debt under control.

Mr Ryan: Yes, I'll answer what our industry's view is. First of all, we're committed to a reduction of debt, but when you reduce debt, there's a difference between the amounts of reduction, whether they're a reduction of operating expenses or a reduction of capital investment. There are only two ways to reduce the debt. The first step is to reduce costs. The second step, which is more important by far, is to create jobs. You can only go so far.

I'll give you an analogy. If I lost my job tomorrow, and I went to my wife and said, "I'm being fired," the first comment that's made and the first approach anybody would take is we have to cut costs. We can only cut costs for so long and at some point in time—

Mr Ford: I realize that.

Mr Ryan:—your wife will say, "You have to get out and get another job." That's the problem with this administration at this point. They have a cost-cutting strategy, but at this point we have not seen the job creation aspect of the second phase of their promotion.

In our industry, which is a capital industry, which spends money on capital—it doesn't spend money on operating expenses. We are the private sector. We create jobs. What this administration has done to date, if we look at the tender awards, is that they've reduced commitment to our industry on the same basis that they've reduced commitment to welfare payments and any other operating expenses within the government. We say to the government, you should not do this. When you reduce commitments to our industry, which are a capital investment, you're not reducing operating expenses; you are reducing a capital investment in this province, and that's our concern.

Not only that; what happens is that not only do these reductions in expenditures not create jobs, they lose jobs. For the first time in our industry to my knowledge in the past 10 years, our members are looking at laying off people they've had working for them for the past 10 or 15 years, simply because of the uncertainty of what this government is going to do in the upcoming budget. It's very important that our industry know exactly where this government lies in terms of its commitment.

Mr Ford: I agree with that you're saying, but in your statement here you say that these roads haven't been kept up in the last 10 years. Is that right?

Mr Ryan: I think we've all read the auditor's report of 1995, and always there's a shortfall in maintenance and investment in the roadbuilding industry, but what has happened in the past couple of years unfortunately is that situation has deteriorated further and further. We've invested in new roads but we haven't maintained what we have in place. There's a shortfall in both aspects of what we're trying to address. There's a shortfall which is critical right now, frankly, to the industry if we don't maintain—if you look at the schedule we've presented of tender totals, since the election of this government there's been effectively no moneys being spent on the roads in this province, on the highways in this province, and this is unbelievable. It's never been faced with that before.

Ms Bassett: The minister, of course, is interested in suggestions from people such as yourself with ideas that will fit into our program, which we don't have the money to spend. What interests me is that I haven't heard anything from you about the private sector, not those such as many people in your industry dependent on government money, but a lot of private companies are building roads, setting up tolls. Look at Highway 407, and Nova Scotia or New Brunswick, where McKenna has done a deal, totally private—

Mr Ryan: We fully support that.

Ms Bassett: Have you looked in this direction?

Mr Ryan: No, we are the private sector. We are building the 407. It's not the private sector—our contractor members are building the 407. Our contractor members are fully conversant dealing with the MT on a daily basis to get more and more involved in the private sector. We have the minutes of that.

Ms Bassett: Okay. Do you not see a role for the private sector to take over and fix the highways, which are important, no question? It's just how we're going to do it. We are committed to the highways.

Mr Ryan: Absolutely.

Ms Bassett: How can we do it?

Mr Ryan: We support that. We have met the Premier many times, and he fully knows where we come from. We support fully the commitment of our industry dealing with the private sector, which we did on 407. When you refer to 407, our members are building the 407 right now, not with private sector funding, unfortunately. Initially that was the concept, and it changed in midstream—

Ms Bassett: I know. I'm just looking at new ways we can go with only private money, no government investment. Is that feasible?

Mr Ryan: Absolutely.

Ms Bassett: Why aren't we doing it?

Mr Ryan: We support that, and the Ministry of Transportation is working towards that, and we as an industry are working on a partnership basis to develop that.

Ms Bassett: Do you think that we can then fix the roads and keep them in a manner that you—

Mr Ryan: Ms Bassett, the problem is, there's no question that's the way to go and that's the way we'll be going. The question right now is what's happening today. In other words, when you get the private sector involved in that kind of a process, it takes a long time. It's a longer-term process to develop, and what is happening unfortunately is that we almost have a situation where we have to sort of stop so that we get organized and develop this. We're meeting on a daily basis, frankly. Our industry is meeting with the ministry, with all segments of your government to develop a private sector involvement.

But we still must contain what we have in place, and don't forget that when you get the private sector involved, by nature, because of the structure of our industry, which is small entrepreneurs, there's only a certain number of our membership that can get involved in the private sector involvement, because it means obviously a big capital investment, big resources to deal with high financial sort of strategies that are being developed. There's no question about it then, we support that, and I think the previous administration supported that too, and the Liberals did. We all understand that this is where we have to go, towards more privatization. In the interim, unfortunately, we cannot afford to leave what we have in place, and that's our concern.

That's why we didn't present a brief full of statistics. Our concern as an industry right now is not so much the cutbacks; it's the insecurity and the lack of knowledge of exactly what the government is going to do in the future, and that's what we're really looking for.

1050

Mr Phillips: First an observation: The 1995-96 numbers are quite shocking. I had not seen them until you presented them, but I can't imagine there's been a month in the last 20 years when there was no contract let or no tender let.

Mr Ryan: Mr Phillips, we've never had a situation as we're faced with right now. It's never been as bad as it is at this point. It's not only bad in the sense that if you look at it since this current administration came into power in June we've gone from \$140 million to \$179 million—\$30 million—which is absolutely nothing. We're fully concerned about that. We've expressed our concerns to the government.

But we're more concerned, Mr Phillips, with the fact that we still don't know at this point what is going to happen between now and the end of this fiscal year, or in the current year, which effectively means that our membership has to then make a very strategic decision whether to lay off people, which is what's been happening, which has never happened before. I'm only reflecting 1991-92 here. You go farther back and we still didn't have the volumes we're faced with right now in this fiscal year.

Mr Phillips: The thing I can't quite understand is that the government has cut its capital budget from \$3.8

billion to \$3.4 billion, but the road portion looks like it's been sort of completely eliminated.

Mr Ryan: Totally decimated; totally wasted.

Mr Phillips: Why would it be that the roads sector of the capital spending has been so decimated? I gather the other sections have been barely touched.

Mr Ryan: I don't know, but I know that Mr Harris's government, with his Common Sense Revolution, had a group of people that made some analyses of what were felt to be the most politically astute moves to make, and I guess the group he had talking to him before the election effectively stated that investment in roads and infrastructure was not a high-priority item. Frankly and unfortunately, I think this government has followed that sort of thinking. It's hard to sell them on the fact that if you adopt that kind of approach in your thinking, you're probably so far out in terms of what every other administration thinks, in this country and in the United States and Europe, because there has to be a commitment to infrastructure investment to maintain what you have and to develop your economy.

Mr Phillips: Just as an aside, there's an interesting article today on the rail cost likely going up, which will put more pressure on the roads and what not.

This is a mildly political question but they always say, "You understand that the deficit is a big problem," and everybody says, "Yes, we understand the deficit's a big problem." The solution they have, however, is one that is a bit unusual in that the deficit is a big problem, which we all understand; they've got to cut \$8 billion out of spending, but \$5 billion of that \$8 billion is going to then be put in the form of a personal income tax cut.

I guess my question for the road builders' association is, has your organization debated that issue at all and do you have any advice for us on the relative—

Mr Ryan: Yes, we have actually said to the Premier, at our first meeting, that we support his commitment to deficit reduction but we don't really support his tax cuts. We don't think both of them go hand in glove. To us, it's inconceivable. It doesn't work that way.

Unfortunately, this administration has a view that all you have to do is cut costs and make some comments about being open for business, cut labour legislation and things of that nature and all of a sudden there's going to be an influx of investment in this province.

We don't see that. That's a long-term process, and to make those cuts in tandem with tax cuts doesn't make any sense. We told him that specifically, so we have no problem with that. We don't support a tax cut at this point. We don't think it's going to generate the revenue or the economic viability in this province that this Conservative administration believes it will.

Frankly, I think we're getting to the point where we have to make some quantitative points. We have to sort of sit back and say, "What's happening here?" We're talking as an advocacy group in a sense, but as to the nature of our presentations in the past, I think you'd all agree, even though we represent a specific industry, we've always tried to speak on what we believe is in the best interests of this province. We're very concerned at this point of what's happening in this province.

Ms Lankin: I'd like to follow up on Mr Ford's and Ms Bassett's questions. I hope that the points you just made are ones the government members will take back to the Treasurer. I think there were some very important issues you touched on.

First of all, I want to underscore your opening statements about the importance of infrastructure, and particularly our roads infrastructure, to economic development. Companies, more and more reliant on just-in-time delivery, need good, reliable roads. I want to pick up on your exchange with Ms Bassett about the involvement of the private sector, because I didn't quite understand what the question was leading to. The private sector is predominantly the group that is involved in the major maintenance repairs and certainly in new road construction. There have been, in terms of large projects like the 407, attempts at innovative financing, which in this case moved then to public sector financing because it turned out to be cheaper, but with tolls that will pay that off.

The Conservative Party made it very clear on the record many times that it opposes tolls for road repairs and ongoing maintenance. They only support tolls for new road construction. So I don't know where Ms Bassett is suggesting the private sector get their money for doing this work. If you're not going to put up tolls, then presumably the other alternative is dedicated road tax, gas tax, which the private sector isn't in a position to collect efficiently; it would be the government that would have to collect it and hand it over. So I'm not sure where the private sector source of funding is and who pays for it. Isn't it the taxpayer in one form or another?

Mr Ryan: That's a good question because I had some confusion there with the question. As an industry, we support the concept of tolls, but we only support the concept of tolls on new highway systems. We do not support the concept of tolls on maintenance and general—

Ms Bassett: I wasn't suggesting tolls.

Mr Ryan: I understand that too, but I'm just making clear where our industry comes from and why we support the privatization. We support privatization as a principle, but again I make the point very strongly that we are the private sector in terms of the construction aspect of the—

Ms Lankin: Mr Ryan, let me interrupt you for a moment, because we heard that the question wasn't about tolls, then. What else is there? Who's going to pay the private sector? The private sector's going to build these roads, and if we're not talking about tolls, who's going to pay for it?

Mr Ryan: There are lots of means of funding a new highway system without going through tolls. In other words, the ancillary services built on a highway will then contribute. If you look at the European experience, what they've done there is they have a phrase—I can't think of it right now—which is they used a way of tolls but it's sort of an ancillary kind of toll in the sense that the people who are the beneficiaries of that particular highway system will then contribute to the funding of it.

Ms Lankin: Would that be like the arrangement I negotiated with the Palladium in Ottawa, that they paid for the access ramps to—

Mr Ryan: Absolutely, 100%.

Ms Lankin: That sort of thing is actually being done in the province of Ontario already. That's an interesting new idea.

Mr Ryan: The concern we had, unfortunately, with your administration, going back to the concern with the 407, was that if the funding had gone to the private sector as was originally contemplated, and I know the cost factor was a concern, but I believe that in the future when you build any more new highway systems or when you build the extension to Highway 407, the private sector has to be involved in that process, in other words, from a financing point of view, and that's economically viable both from the government's perspective and from the private sector industry's perspective.

We say to the government simply, in very simple terms, spend more money on the maintenance of what we have in place, build the smaller roads. We have a concern, frankly, with the transfer payments to municipalities, but that's another issue. If you're going to move into the bigger highway projects, which are going to be tolled or financed in other ways, go to the private sector for the financing.

Ms Bassett: Why can't you—

Ms Lankin: My last—Ms Bassett.

Ms Bassett: I'm getting like you, Ms Lankin.

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Ms Lankin: My last question has to do with how government looks and accounts for its finances. I know that this government is very committed to, they call it, one set of books and to the consolidated deficit number.

Mr Ryan: It's crazy.

Ms Lankin: I would like you to address this concept, which I became converted to, the idea that our capital spending should be moved off book; it shouldn't be part of what we look at and count in terms of our general revenue stream and our general expenditures, and it should be amortized, because it's like a mortgage for a house—

Mr Ryan: Absolutely.

Ms Lankin: —versus your operating expenditure for your food and clothes. Could you comment on that?

Mr Ryan: It's an important issue. I'd like to address that for a few minutes. We supported that concept from day one. We supported that concept with Bob Nixon, the Treasurer of the Liberal Party. We convinced them to differentiate between capital and operating; we convinced Bob Rae to do the same. I'm not saying we convinced them, but we really took a position and they supported that. There's no question in our mind that that's the only way to operate. You have to differentiate between an investment a government makes in capital and then operating expenses.

Again, using a personal analogy, if you have a home and you lose your job and you have a mortgage, for Christ's sake, this is a commitment you have to maintain; you can't just walk away from it. When you sort of lump everything in on the same basis, when no matter what expenditures you have, whether they're capital or operating, you throw them all in the same pot and say we have to cut back on them, that devastates the whole economy.

There's absolutely no reason why a government cannot take the capital portion of its budget, or what is deemed

to be—when you play political games, you call it off-book accounting. That's nonsense. You transfer it to another agency, be it a crown corporation or anything else, and amortize the cost of those new highway systems over the life of the project. Everybody's happy.

The people at large, we've had so many polls over the years and asked people if they would be willing to support and pay for new highway systems as long as the moneys they contribute are going to a dedicated funding system. There are so many methods to finance a new highway project and to develop this economy outside of government expenditures. It's not just our views. It's the United States' views, it's happening in Europe, it's happening all over the world. We have to take our commitment to capital away from the operating expenses of government and at least understand that there's a different process there. But you, as a group of different parties, have to agree in principle that that's the way we should be going.

The Chair: Thank you very much, Mr Ryan. We appreciate the Ontario Road Builders' Association coming in and presenting to us.

ONTARIO HOSPITAL ASSOCIATION

The Chair: The Ontario Hospital Association, Mr Ron Sapsford and Mr Brian McFarlane. Welcome, gentlemen. Identify yourself for Hansard records, please.

Mr Brian McFarlane: My name is Brian McFarlane. I'm the president and CEO of the Doctors Hospital and also a member of the board of the Ontario Hospital Association as a past chairman. With me is Ron Sapsford, who is the chief operating officer of the Ontario Hospital Association. We are pleased to have the opportunity to make this presentation today as part of your pre-budget consultation process.

When the Minister of Finance tabled the government's fiscal and economic statement in November, he repeated the government's commitment to protect health care spending so that at the end of the government's term of office it will be no less than \$17.4 billion. It is unclear, however, whether that represents a commitment that health care spending will not drop below \$17.4 billion or a promise that when the government faces re-election that level of funding will be restored. OHA is therefore deeply concerned about the uncertainty this creates for all transfer partners and providers, and urges the government to clarify its intentions.

In making that promise, the Finance minister warned that "this is not a commitment to maintain the status quo. We need to find savings in some areas in order to meet new health care needs in other areas, for example, to provide new technologies, to reduce waiting lists and to meet the needs of an aging population."

OHA too is an advocate for change. We have consistently urged the government to provide stable, multi-year commitments for transfer payments to hospitals. We are pleased, therefore, that this government continued the practice of making multi-year announcements. However, the drastic reduction of \$365 million, \$435 million and \$507 million respectively in each of the next three years will pose significant challenges to all hospitals.

When Mr Eves made the multi-year funding announcement, he painted a bleak picture, but he painted it with a very broad brush. That picture involves a reduction of \$1.3 billion in transfer payments to hospitals over the next three years, a cumulative cut of approximately 18% in base funding, reducing the hospital allocation to \$6 billion. We have some appendices to our presentation which illustrate those numbers. Many questions remain for which hospitals require immediate answers in order to plan effectively. This is a reduction of unprecedented magnitude which poses daunting challenges for the hospital sector. We are confident that the hospital sector has the will to meet these challenges; however, there are many unresolved issues and tools which we need.

Individual hospitals do not yet know what the actual funding impact will be on their organizations. Furthermore, it is unclear how these successive annual reductions in transfer payments of 5%, 6% and 8% will relate to restructuring and other reforms—for example, hospital closures, mergers and amalgamations—or what will happen to the savings generated by these types of restructuring activities.

OHA has for several years said that the status quo is no longer sustainable. OHA's continued partnership with the Ministry of Health through the joint policy and planning committee, the JPPC, is an important part of our efforts to contribute constructively to restructuring of the health care system. The JPPC has recommended to the Health minister that funding reductions be calculated using a formula developed collaboratively with hospitals. OHA supports this formula, which would result in the application of funding reductions to individual hospitals in a way that reflects their actual cost of delivering services or care. We urge the government to accept the recommendations and to announce the allocations for 1996-97 as soon as possible.

Simple across-the-board cuts of 5%, 6% and 8% will have serious negative consequences for hospitals in Ontario and the millions of Ontarians who receive inpatient and outpatient care every year. In order to cope with the across-the-board cut, hospitals with below-average costs would be most likely to reduce services since operating efficiencies and non-clinical staffing cuts would have already largely been made. OHA therefore recommends that the committee urge the government to accept the recommendations of the JPPC in allocation of funding reductions for individual hospitals.

OHA further recommends that the announcements regarding transfer payments to individual hospitals be expedited. We are very close to our year-end; 1996-97 starts April 1 and we still don't have specific funding allocations to our institutions.

Other hospital funding issues: Growth funding. Some regions of Ontario have experienced rapid and substantial population growth. Hospitals in such areas are hard pressed to meet the growing demands for services in their communities, particularly in light of having had their budgets flat-lined for the past three years. Further budget reductions will inevitably result in further cuts to services. The JPPC has recommended that the Ministry of Health set aside a pool of funds, as a component of its reinvestment strategy, to disburse to hospitals experient-

ing service pressures due to growth in the populations they serve. The OHA urges the government, through this committee, to endorse the concept of a pool of funds to offset hospital costs associated with population growth.

Life support funding is another issue. The OHA commends the government for recent announcements of funding for new dialysis programs, which fall under the life support designation. However, we wish to point out that maintaining funding to cover the operating costs of existing life support programs is just as important. We recommend that the committee endorse the continuation of life support programs during 1996-97 and beyond.

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Chronic care copayment is an issue that's been outstanding for a long time. The application of the current copayment structure is inequitable, discouraging the transfer of patients to the most appropriate setting for the care they need. The OHA recommends that the committee endorse the implementation of changes to the chronic care copayment structure so that hospitals are permitted to charge copayments for alternative level of care patients in acute care beds.

Collective bargaining process and pressures: Approximately 72% of hospital budgets goes to salaries and benefits. As a result, any salary increase, whether achieved through a collective bargaining settlement or arbitration, would have a significant impact on hospitals' operating costs. Each 1% in employee compensation has a \$52.4-million impact on the hospital system. Any such increase would seriously compound the difficulties posed by an 18% cut in funding over three years.

Usually, transfers from government take into account these collective bargaining pressures when it comes to funding increases. Alternatively, when funding levels are constrained, governments have often imposed wage restraint measures such as the Social Contract Act in order to equalize revenue and expenditure pressures on transfer partners.

Bill 26 calls on arbitration boards to take into account a public sector employer's ability to pay in making awards. However, we do not believe the new legislation will have the desired effect. Unfortunately, many of Ontario's interest arbitrators have in the past not applied legislation which attempts to limit their jurisdiction in awarding compensation increases.

OHA has previously called for a review of the Hospital Labour Disputes Arbitration Act, HLDAA, and proposed changes which would address our concerns. We have submitted to you a written detail of that proposal. OHA therefore urges the government to endorse through this committee a review of the HLDAA as proposed by OHA.

Pay equity: The goal of pay equity has largely been achieved in the hospital sector, at a cost of approximately \$635 million in adjustments to date. However, pay equity maintenance is closely intertwined with interest arbitration. Continuing maintenance past January 1, 1998, the latest date that equity can be achieved in our sector, is unnecessary and would result in costs over and above those incurred through the normal collective bargaining process. OHA recommends to the committee that the Pay Equity Act be amended to state that maintenance is not

required for a given group of employees once pay equity has been achieved.

In addition, the Finance minister announced in July that the government's pay equity funding assistance, approximately \$175 million to date in the health sector, was capped through the fiscal overview and spending cuts. The government subsequently indicated that a funding formula to redistribute the existing base funding is under development. As a result, some hospitals may lose funding which is currently in their base. This potential clawback represents a new cost pressure over and above the 18% for hospitals and is another unknown factor as we do our budgets for 1996-97 and beyond. OHA recommends that the committee urge the government to reverse its decision to impose a cap on pay equity funding.

Hospital operating and capital planning requirements: The government has stated that hospital restructuring is a priority. OHA supports the principle of restructuring but cautions that there must be a recognition that a capital investment will at times be necessary for successful restructuring in order to achieve operating savings. For example, Essex county has determined that it needs \$72 million in capital investment, two thirds of which would come from the Ministry of Health, to upgrade the local infrastructure; in Metropolitan Toronto capital investment requirements are estimated at \$350 million.

OHA recommends that the government urge the committee to acknowledge the need for and financially support the capital investment required to support restructuring of the health care system and to achieve operating savings.

Labour adjustment: In addition, there must be funding available to cope with the serious labour adjustment pressures that can be expected from restructuring.

The present health sector training and adjustment panel, HSTAP, is uniquely positioned to meet the needs of the health system as restructuring continues. However, current funding mechanisms for worker redeployment are inadequate for the challenges of the next three years. Dedicated labour adjustment funding will be required on an ongoing basis. Adjustment funding should not have to come from individual hospitals' base budgets and thus from the health care delivery system.

OHA urges this committee to advise the government that HSTAP should be maintained and that additional funding for HSTAP should be made available.

Crown foundations: For a number of years we've been an advocate for enabling legislation for crown foundations and we recommend to the committee that it endorse legislation to permit hospitals to establish crown foundations and that such legislation be enacted as quickly as possible.

In conclusion, I should make you aware of some recent findings that were announced at our OHA convention in November from the Environics research public opinion survey. Among other things, we found that nine out of 10 Ontarians believe the government should maintain or increase current levels of spending in hospitals. In order to maintain government spending levels on hospitals, eight in 10 people were willing to forgo the tax cuts promised by government.

This demonstrates the gulf between the views of the public on the one hand and the recognition on the part of hospitals, OHA and the government that fundamental restructuring is inevitable. However, the public is not yet ready to embrace sweeping change.

Issues of access to service and quality of care will dominate in the public's mind as restructuring is implemented in the communities throughout Ontario. The next three years will present tremendous fiscal and programmatic challenges to hospitals and to the hospital system. Hospitals can say with pride that the system as a whole supports restructuring if it is done fairly and equitably and at a pace which will accomplish the goals of preserving and improving patient care.

Hospitals have lived with flat-lined budgets for three years and are prepared to do the best they can to cope with unprecedented reductions in funding. However, it is imperative that the government quickly clarify its intention regarding its commitment to preserve the \$17.4-billion envelope of health care funding over the next four years, what will be funded by the envelope and at what levels.

Any reductions to hospital transfers over and above those already announced will severely compromise the ability of hospitals to continue with restructuring initiatives which, as mentioned, will also require significant capital investments and investments in long-term care and community health services.

The recommendations we have made here today represent tools that the government can give us as providers to assist in the massive transition that hospitals continue to face.

Ron Sapsford and I would be pleased to address any questions you may have at this time.

Mr Phillips: We'll make your request for you on the intent of the \$17.4 billion. I assume your interpretation was that it was going to be flat-lined.

Mr McFarlane: That's right.

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Mr Phillips: We'll ask them to clarify that. I assume that's what they mean if that's what OHA thought.

I just want to make sure I interpreted your message to us right. Essentially, we look to the OHA as the voice of the hospitals. The OHA is saying that you can manage with the cuts that have been announced. Have I interpreted that properly?

Mr McFarlane: What we're saying is that we need certain tools in order to manage. We need tools to deal with labour adjustment issues; we need tools to deal with the retraining and redeployment and funding for that over and above health care funding; we need capital investment in order to help change the infrastructure to create the operating savings, in order to live within the reductions in funding.

Mr Phillips: That's an interesting comment. I look forward to future meetings with the OHA.

Ms Castrilli: One issue that isn't addressed in your presentation which of course is on the minds of many, given the reports of the district health councils, in particular Metro Toronto, is what your association's position is on some of the recommendations that have been made, the closures of hospitals that have been

recommended. Has that been debated in your association, and what are the conclusions?

Mr Ron Sapsford: The hospitals of region 3 of OHA, which are the hospitals in the Metropolitan Toronto area, reviewed the report and there was general support for the directions of the Metro DHC report. We're now waiting anxiously to discover the intention of the government with respect to that report with the fiscal plan as it's laid out over three years.

There's of course a great deal of interest in understanding the directions, because the achieving of the fiscal goals to a large measure depends upon decisions around restructuring. So the hospitals as a community, not just in Metro but across the province, are quite anxious to move forward with these decisions so that they can begin the work of restructuring in order to attempt to meet the fiscal goals as they've been set out.

Ms Castrilli: I note in your submission that you would view that there need to be some initiatives—

The Chair: Ms Castrilli, I'm sorry, the time has expired. We'll have to move on.

Ms Lankin: I don't know, Brian, I think in retrospect you must look back on our professional time together with great fondness now. Things have changed, eh? Amazing. Anyway, let me get this straight. February 6 you're still writing the minister asking to find out what the differential levels of transfer payment cuts are going to be to hospitals?

Mr McFarlane: Hospitals have not yet been informed of their specific funding levels for 1996-97.

Ms Lankin: So we know that the overall cut is how much for next year?

Mr McFarlane: The 5.5% is the general reduction.

Ms Lankin: That's the average reduction, so for some hospitals it could be 5.5%, for some it could be as much as 8% and others as little as 2%. We don't know that yet.

Mr McFarlane: We don't know, but that's the potential.

Ms Lankin: I think anyone who's had any experience in trying to deal with a budget can imagine the stress that hospitals must be under right now, not knowing if in fact it's 5.5% for them or whether they should be planning for 8% or 10% or whatever.

Some of the suggestions that you are making, recommendations that you're making, deal with requesting tools to deal with the reduction in transfers. Interestingly, in your comments on the Hospital Labour Disputes Arbitration Act, the government—I sat through days and days and days of hearings on Bill 26, and the government members said over and over and over again that those were the tools that you needed that were in that bill. Did that not provide you with the tools you need?

Mr McFarlane: The OHA proposed amendments around those sections of Bill 26 and they're essentially contained in the submission here today. The actual wording of the final act does not include some of the clauses that we felt were essential to give effect to the issues around ability to pay. So we will work with the legislation as it is and we're getting ready to sit down with all of our labour unions in the very near future as the social contract expires. There is a difference in view as to the effectiveness of the act.

Ms Lankin: As you know, actually I'm not supportive of ability-to-pay criteria in the world of arbitration. However, I sympathize greatly with the box that you're placed in, so I understand why you would be looking for those kinds of tools. I would suggest that, contrary to including some of your suggestions in the Bill 26 process, the amendments they did make to that section probably make your problem worse because they included an amendment which says, "Nothing in this section affects the powers of arbitrators."

I don't know what you think arbitrators will do, but my experience with arbitrators is that this will allow them to exercise their judgement on the criteria, as they have always believed and as I believe they should have the right to do, in an unfettered way. So I'm not sure that this didn't make things worse from your perspective.

The Chair: Was there a question?

Mr Sapsford: I believe we would share your view on that.

Mr McFarlane: We agree with Frances's summary of the impact that arbitrators could have on us.

Ms Lankin: So—

The Chair: Thank you very much and—

Ms Lankin: This was the zinger, Mr Chair.

The Chair: Oh, was it? I saved us a zinger.

Mrs Marland: But, Frances, at the beginning of the week you said he was a good chairman.

The Chair: Yes, I've been paying for that.

Ms Castrilli: He is equally unfair to everyone.

The Chair: That's the umpire theory of chairmanship.

Mr Wayne Wettlaufer (Kitchener): Thank you, gentlemen, for your presentation. I am very interested in health care, coming from a riding where hospital restructuring was ahead of government plans and started a number of years ago in Kitchener. I'm also very involved in the ICU/CCU concerns. One of the hospitals in our area had been held up by the previous government after receiving private moneys to improve theirs and we got that through.

One thing I am particularly concerned about is the chronic care copayment method. We have private nursing homes and we have other long-term-care facilities as well as the hospital chronic care facilities. Do you have the figures? What is the copayment from the government to those three different institutions?

Mr Sapsford: I can't give you the exact figure.

Mr Wettlaufer: Close.

Mr Sapsford: The copayment is governed by regulation and is geared to old age incomes and old age guaranteed income supplement. It has moved in direct lockstep with those federal and provincial programs. The copayment is the same for extended care and chronic care, but the application of it is different. In a chronic hospital there is a much longer waiting period before the copayment can be implemented, whereas in an extended care facility the payment starts on day one of the admission of the resident to the home.

We have a problem in the hospital system inasmuch as people who are designated waiting for placement in long-term care are in both chronic hospital beds and acute care beds and there's a disincentive to the movement of people through the system because in an acute hospital,

notwithstanding the fact that they may be designated for long-term care, there is no copayment. There's a resistance to moving because as someone moves to another location, the copayment becomes applicable.

What we're arguing is that the copayment should apply to the clinical condition of the patient as opposed to the specific type of institution that the patient resides in. We believe that this would do something for, first of all, revenue generation for the hospital but, secondly, would also improve the movement of patients to the proper level of care for their particular condition.

Mrs Marland: As the advocates for all the hospitals in the province, I realize you have a formidable responsibility and I know that you're well aware of the problems in the growth areas such as Durham, York and Peel. I'm just wondering whether you have advice for us, and indeed for our Minister of Health and the Minister of Finance, in terms of whether you support a growth factor being included in the proposed hospital funding formula, and if not, why not.

Ms Lankin: It's in the brief.

Mr McFarlane: In the comments we made, we indicated support for a pool of funds for the growth areas.

Mrs Marland: I'm sorry, I was out of the room when you made that comment.

The Chair: Thank you very much to the Ontario Hospital Association for your presentation today.

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CANADIAN LIFE AND HEALTH INSURANCE ASSOCIATION

The Chair: We now have the pleasure to hear from the Canadian Life and Health Insurance Association. Welcome to the committee, gentlemen and lady.

Mr Jim Witol: My name is Jim Witol; I am the vice-president of taxation and research at the Canadian Life and Health Insurance Association. Joining me today is Gord Graham, who is our vice-president of provincial affairs, and Peggy McFarland, who is our director of corporate taxation.

We have already provided the committee with a written submission, so I just propose to review briefly its main points. Before I do that, though, I'd just like to provide a short profile of the Canadian Life and Health Insurance Association and the industry we represent.

The Canadian Life and Health Insurance Association, or the CLHIA, has 91 member companies accounting for over 90% of the life and health insurance business in Canada. The CLHIA represents an industry that is highly competitive, with 146 companies in Canada, 103 of which have their Canadian head office in Ontario. Our industry offers a wide range of financial security products to over 20 million Canadians, including individual and group life insurance, individual and group annuities, including RRSPs, RRIFs and pensions, as well as health insurance supplementary to public health plans. Our industry pays over half a billion dollars a week in benefits to policyholders. Our industry is one of the country's most important sources of long-term investment capital. It is internationally successful, with over 43% of

its revenues generated abroad. Our industry is a significant contributor to public finances, paying \$1.3 billion in taxes in 1994, of which over \$400 million was paid in Ontario.

Turning now to the province's overall fiscal management, we support the government's broad plan of action for fiscal restraint. Given the financial situation in Ontario and the country as a whole, there's no option but to reduce expenditures and target scarce resources on programs of higher priority. We urge the Ontario government to continue making the spending cuts necessary to reach its deficit reduction objectives and ultimately a balanced budget. Corporate and personal taxes are very high in this country, especially compared to the US, so there's no scope for higher taxes.

Now I'd like to discuss a tax issue that is largely within the federal domain: the taxation of private health care plans. I mention it to provide you with a more complete picture of our position on taxation, especially as background for any federal-provincial talks that might take place on taxation and finance.

The possibility that employer contributions to private supplementary health and dental plans might be taxable to employees has come up for speculation during the federal pre-budget consultations for the past couple of years. One concern that was raised by the federal Minister of Finance last year was that there may be a large group of Canadians, up to eight million or nine million, who do not have supplementary health and dental protection because they cannot benefit from current tax treatment. In order to track this issue down, the CLHIA, in concert with several other organizations, conducted a study to determine the true extent of supplementary coverage in Canada and to assess whether tax unfairness plays a role.

A key finding of the study, which is attached as an appendix to our submission, is that 25.6 million Canadians, or nearly 88% of Canada's population, have supplementary coverage above and beyond the basic hospital and medical services provided through medicare, under special government or private supplementary plans. This leaves, though, 3.6 million without supplementary coverage, and they fall into three groups.

The first group, about two million in number, consists of employees and their dependants in workplaces which could but do not currently provide a supplementary plan. The workers in this group are subject to the same tax provisions which apply to the supplementary private plans which currently cover 20 million Canadians. So this group's lack of coverage can't be attributed to tax factors.

The second group, about a million in number, consists of the unincorporated self-employed and their dependants. The workers in this group, unlike their counterparts in incorporated small businesses, cannot deduct the cost of their own supplementary coverage as a business expense. For them, a simple change in the tax deductibility of premiums would put them on the same footing as the incorporated self-employed.

A third group, about 600,000 in number, consists of Canadians with little or no attachment to employment. Changes to the tax treatment of employer contributions to private supplementary plans would do nothing to alter

this group's lack of coverage. The basic problem for this group is lack of employment.

These results regarding the extent of coverage underline the importance of supplementary private plans and their current tax treatment for the vast majority of Canadians. Clearly, an initiative to tax employer contributions in the hands of employees would only serve to increase the size of the uncovered employed while doing nothing to reduce the size of the other two groups that don't have coverage; namely, the unincorporated self-employed and the unemployed.

Furthermore, the ability of private plans to pick up the slack arising from the retrenchment of public plans would be seriously eroded. The ultimate result would be a lower standard of health in the country and its associated implications for productivity and future health care costs.

I would now like to make a few comments on the premium tax on insurance premiums collected in the province. In recent years, this has been the primary source of provincial tax revenue from our industry, and in 1994 it amounted to \$150 million in Ontario. The premium tax has adverse effects on our competitive position in certain markets. For example, many Canadians save for retirement through the buildup of cash values in permanent life insurance policies which are subject to the premium tax. Other financial services, such as deposits held by banks and trust companies, are not subject to such a tax, and the provincial capital tax burden on these institutions is quite small in comparison to the insurance premium tax.

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Any action taken by a province to increase the premium tax also has a significant impact on the competitive position of insurers headquartered in the province in their business in the United States, which is where the bulk of the Canadian life insurers' international operations take place. This competitive impact occurs because nearly all the US states have retaliatory laws that impose additional taxes on an insurer whose home jurisdiction, such as Ontario, imposes higher taxes than the state imposes. In 1976, for example, Ontario raised its premium tax on life and health insurers to 3%. The negative impact of the competitiveness of Ontario-based insurers in the United States as a result of retaliatory laws prompted Ontario to repeal the tax measure two years later. So we would urge the Ontario government not to increase the premium tax on life and health insurance companies.

A related tax issue that concerns us a great deal is the measure in Ontario's 1993 budget, now incorporated in the recently passed Savings and Restructuring Act, which applies the retail sales tax to group life and health insurance premiums. Most of this tax is payable by employers and unions as sponsors of group benefits. Given the current level of economic competition and the need to control expenditures, this tax could very well force cutbacks in group insurance—health insurance in particular, as it is more costly than life insurance—because many hard-pressed employers and unions simply cannot afford higher costs.

The most vulnerable will be employees in small and medium-sized companies. Those with the most to lose are the lower-income groups, because unlike life insurance or

pension plan arrangements, the level of private health insurance benefits does not usually vary with income. It seems perverse that the tax applies to insurance for dental services, prescription drugs, eyeglasses etc, but not to the goods and services if directly purchased. More generally, it just seems unreasonable that life and health insurance intended to protect workers and their families is the only financial service that is targeted by the retail sales tax. We strongly urge the Ontario government to give serious consideration to repealing the retail sales tax on group life and health insurance premiums.

That is the end of my prepared remarks. We would be pleased to try to answer any questions the members have.

Mr Silipo: Thank you very much for the presentation. I guess I want to start by dealing with one of your basic assertions that there's already, in your view, a higher than acceptable level of taxation as it affects the corporate sector. I continue to be puzzled by this assertion in that when we look at chart after chart that comes out of the Ministry of Finance—not partisan numbers but numbers that clearly come out of the bureaucracy in the ministry—it shows, whether you look at corporate taxes as a percentage of GDP in various countries, within Canada but also in the G-7 countries, whether you look indeed at statutory corporate income rates for the manufacturing sector, which I know have been the benchmark in the corporate sector, between Ontario and many other jurisdictions around us and the US particularly, Ontario has the lowest rate, as we are among the lowest in terms of corporate income tax as a percentage of GDP. Even when we look at payroll taxes, Ontario compares pretty favourably with other jurisdictions. So I don't quite understand where this assertion comes from that corporate taxes are too high.

Mr Witol: I guess the way I would respond to that is that it's the federal Department of Finance itself that has made comparisons of both corporate and personal income taxes across various OECD countries and it's their assertion that corporate taxes are quite high in Canada.

When I refer to a heavy tax burden on our industry, I'm not referring just to corporate income taxes. Corporate income tax is perhaps the most visible tax or the tax that most people are aware of, but there are many other taxes on financial institutions, life insurance companies in particular, including payroll taxes, capital taxes, investment income taxes, real estate taxes. They add up to a very high number. The Conference Board of Canada has made a study of the tax burden on financial institutions for four or five years now and has concluded that there is a very heavy burden on financial institutions.

Unfortunately, one of the aspects of the overall tax burden is that, by and large, it is not sensitive to corporate profits. The study they've done indicates that there is a slow increase in the overall tax burden irrespective of how much real income has been earned by the financial institution. So the tax burden certainly on life insurance companies and financial institutions as a whole is quite significant.

Mr Silipo: I actually have some sympathy for some of the particular points you've made with respect to some of the particular taxes on your industry, but just to come back to the broader issue, because you do address it in

that way at the beginning of your presentation—again I'm looking at statistics not that I've made up or that have been made up for any party caucus but statistics that come from the same bureaucracy that has advised Liberal, NDP and now Conservative governments in terms of what the numbers show. The reality I would throw into it is that if we look historically at what has happened in terms of corporate taxation versus personal income taxation, clearly there has been much more of an onus put on personal income taxes as opposed to corporate taxes.

The other question I want to address is the link between taxation and jobs. One of the things we've also been probing is, as you know, this notion that if taxes were reduced on the corporate side, that generates in and of itself a number of jobs. The minister's own assertion is that anything that comes out of the personal income tax cuts is not going to generate jobs for at least a couple of years after those cuts are made. We heard yesterday from another sector where they're looking at profits having continued to increase but jobs having continued to decrease in that industry.

I just wondered if you could talk a little bit about that issue. Where are the jobs going to be created if even the variety of statistics we are looking at indicate that those kinds of tax reductions are not resulting in jobs being created? Yes, we have to have industries in the various spheres that are more competitive, but presumably as a society what we want at the end of the day is to have more people working, and it doesn't seem to me like any of these measures are getting us there.

Mr Witol: I can't speak from experience in our industry since our tax burden is going up all the time. There's been no reduction in taxes at all. The employment in our industry has been going down slowly because of the greater competition for the savings dollar and the demographics of the country are such that people are more interested in saving money for retirement than purchasing insurance. Our industry has just had to face the banks head on for the savings dollar. As a result, we've had to become more efficient and the jobs are going down a bit.

I really don't have an answer to where the jobs are going to be created should there be some reduction in the tax burden on employers, and therefore perhaps leave a little bit of room for increasing employment as opposed to just socking it away in terms of greater profits. It's a very, very complex issue and tax is just one small bit of the overall worldwide competitive issue.

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Mr Silipo: We're discovering just how complex it is.

Mr Hudak: As I'm sure you're well aware, this government has been given a mandate to create a positive economic environment to help the private sector create jobs which you speak to very well in your presentation. Earlier today we heard from the Ontario federation of women teachers who suggested that a good way of eliminating the deficit would be to increase taxes across the economy. In your opinion, what kind of effect would that have on employment, not just in your industry but broadly across Ontario?

Mr Witol: I don't agree with the premise, I guess. I don't see how increasing taxes is going to achieve the results that were mentioned.

Mr Hudak: In fact in your presentation, I note on page 3, "The ultimate goal must be to lower the overall burden of taxation in Canada." This government as well will be balancing the budget at the same time as reducing the overall level of taxation. Will that strategy have a long-term impact on employment in your industry and broadly across Ontario?

Mr Witol: I'm not sure that taxes are going to determine employment in our industry, but I think it is reasonably well accepted that things like payroll taxes do reduce employment. Certainly the greater the employers' costs that are directed to taxes, it just leaves that much less room to hire people and pay salaries. I just don't see how increasing taxes helps at all.

Mr Hudak: In fact, decreasing taxes, as you said, will help employment and the economy.

Mr Witol: Yes, that's our view.

Mr Hudak: Thank you. That's all for me, Mr Chair.

Ms Lankin: What kind of tax? Be specific about which kind of tax.

The Chair: Mrs Marland.

Mrs Marland: I'm yielding to Mr Wettlaufer.

Mr Wettlaufer: In the property and casualty industry, when the retail sales tax was imposed on the insurance premiums, there was about a six-month lag and then there was a pretty severe reduction in demand for the product and, as a result, jobs were lost. Did you notice the same thing in your industry? Was there a lag and then a lessening in demand for the product?

Mr Witol: We don't have 1995 figures yet, but I don't think the same effect was experienced, at least to the same degree, because in health insurance there is an implied contract between the employer and the employee for benefits, so one has to negotiate with the employees to make changes in plans. If there are plans that straddle provincial borders, it's very awkward to change the plans in one province, Ontario, and not in the others, so it's just a more complex thing to adjust for.

But there is definitely a movement within the health sector to fine-tune, to target the benefits better, to even reduce the employer's costs by providing the benefits, perhaps even on a semiselective basis that employees want, a sort of cafeteria style of benefits. I just don't have hard numbers to back that up.

Mr Wettlaufer: You haven't seen a lowering in the average premium for small businesses?

Mr Witol: I don't have any figures for that, sir.

Mrs Marland: If we have some time, I will go back. I have to assume, when you represent as many people in the industry and through your industry as many of our Ontario residents as you do, that you have a very real concern about the deficit in this province. Am I correct?

Mr Witol: That's correct.

The Chair: We'll go to the opposition.

Mr Phillips: Well, I'm shocked by that answer. That leaves a whole lot of questioning.

Mrs Marland: I'm never sarcastic about your questions, Gerry.

Mr Phillips: We're trying to get an idea of the structure of health cost in Ontario. You've indicated that

a surprising number of people actually have supplementary health benefits. It's much larger than I thought. The \$17.5 billion roughly of the funds for spending on health come from the provincial government in Ontario. How much does your industry provide annually in the form of annual Ontario costs for health benefits?

Mr Witol: I don't have an Ontario number handy. The private sector health insurance premiums in Canada amount to, are in the order of \$7 billion or so, and probably 40% to 45% of that would be in Ontario.

Mr Phillips: Let's say \$28 billion are spent on health care in Ontario, \$17.5 billion funded by the province, and if I interpret you right, you're saying another \$3.5 billion might come from funding from your organization. How would that break down in terms of major categories like hospitals, drugs?

Mr Witol: Probably about 40% of our total would be drugs, another 40% would be dental, and the remainder would be the various supplementary hospital benefits.

Mr Phillips: Semiprivate sort of thing.

Mr Witol: Right.

Mr Phillips: Has that \$3.5 billion grown substantially, stayed the same, shrunk over the last two or three years?

Mr Witol: It has grown more rapidly than the rest of the life insurance business in the past number of years. Health care costs increasing more than the rate of inflation has just meant higher premiums.

Mr Phillips: It would be interesting to pursue it in more detail. Annamarie?

Ms Castrilli: You might get back to it, Gerry. I notice in your executive summary your very first statement is, "We strongly recommend that the government address budgetary deficits solely through a reduction in program expenditures." I can't imagine you really believe that. All the information we've had is that to address deficits, because deficits have been caused both by decrease in revenue and increase in expenditures in some cases, you also have to look at the revenue side. I assume this is an inconsistency that you didn't mean in your report.

Mr Witol: Perhaps through ignorance, but we did mean what we said, that we didn't think taxes should be increased.

Ms Castrilli: I understand that, but surely you're not saying that's all that's required. You yourself point to 600,000 individuals that you quaintly call "Canadians with little or no attachment to employment," which to me means they're unemployed, virtually. They're certainly unemployed to the extent they can't pay for extra insurance benefits. Clearly there needs to be something done on the job creation side, on the revenue-generating side. That's why I find your first statement at odds with the rest of your presentation. You don't see that inconsistency?

Mr Witol: No, I don't see a real inconsistency there. I think that if the province is spending \$50 billion or so, there's probably some opportunity to shift costs from one sector to another.

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Ms Castrilli: You would not urge the government, therefore, as part of its economic plan, to also look at job creation as part of the equation to resolve the problem?

Mr Witol: I'm certainly not against job creation. If that can be done without imposing additional taxes, that's just great.

Ms Castrilli: One quick question. With respect to the 600,000 unemployed individuals, do any of the recommendations that you make in here address the issue of how these individuals might obtain additional insurance, the insurance that obviously the rest of Canadians obtain?

Mr Witol: All these numbers relate to group insurance and the involvement of an employer in paying part of the premiums for that. Obviously, these individuals can on their own seek to obtain non-tax-assisted individual coverage. Some of these people are older family members. These people are not on social assistance. We've taken the position in the study that those that are on social assistance already have coverage under the provincial plan. It's hard to pin down exactly who these people are, but they would certainly be able to obtain private coverage on their own. They're simply not part of the group insurance mechanism, where there is an employer involved, because they have no connection.

Ms Castrilli: Nothing here addresses that.

The Chair: Thank you very much. We appreciate your participation, Mr Witol, Ms McFarland and Mr Graham. We thank the Canadian Life and Health Insurance Association for appearing before us.

I understand that we have a bit of housekeeping to do before we recess for lunch.

Mrs Marland: Are we back to my original tabled motion, then?

Ms Lankin: What tabled motion?

Mrs Marland: Well, tabled discussion.

The Chair: I understand that we have a motion about to be put, or put by Mr Phillips.

Ms Lankin: Could I ask a question first before that happens? Is there any information from the Ministry of Finance to be tabled with the committee today? The clerk hasn't received anything?

The Chair: No, none has been filed with the clerk.

Mr Phillips: Well, let me move the motion, then. I think the members have it.

Mrs Marland: On a point of order, Mr Chair: Mr Phillips, before you deal with a motion, I had requested yesterday that we deal with the letter to Mr Gourley, dated February 6. That was the discussion, in fairness, that Ms Lankin asked last night be postponed until this morning. Am I correct?

Ms Lankin: Right, at 9:15 this morning.

Mrs Marland: Yes. I understand it wasn't dealt with.

Mr Phillips: We were waiting for you.

Mrs Marland: So I'm suggesting that we deal with the letter first, since that was my request prior to Mr Phillips's motion being circulated.

Mr Phillips: I was here at 9:15 to deal with that.

Mr Wettlaufer: Gerry was here; so were we.

Mr Chris Stockwell (Etobicoke West): Give him a star.

The Chair: Shall we deal with Mrs Marland's motion?

Mrs Marland: Well, simply to suggest that the letter to Mr Gourley, which I understand has gone, says, "I have been directed by the standing committee on finance

and economic affairs to request the following information." What I understood was that this was a request from the opposition for this information, which they are entirely free to request at any time. But I think it's correct to suggest that it was not requested by the committee as a whole, it was requested by the opposition, and I think the letter should have been worded that way.

The Chair: In my recollection of the discussion we had at noon, I asked the committee if that letter would go forth. No one suggested that there would be a vote or that there would be any discussion on it and the clerk followed my suggestion.

Mrs Marland: Right.

The Chair: If there was a fault involved, it is mine.

Mrs Marland: No, you said could that request go forward and there was agreement that the request would go forward, but not on behalf of the committee. That's the only point.

The Chair: I might have misunderstood that.

Mrs Marland: Because we're not interested in that question—

Ms Lankin: That information, we know that.

Mrs Marland: We're not interested—

Ms Lankin: In the answer to that question. We know that, Margaret.

Mrs Marland: You're not allowed to impugn what I'm saying. You know that.

Ms Lankin: Okay. I'm sorry.

Ms Castrilli: She is, but not on the record.

Mr Phillips: Can we move on my motion, Mr Chair?

The Chair: Yes.

Mr Silipo: Maybe Ms Marland might want to complete her sentence, then we'd know what it is she's interested in or not interested in.

Mrs Marland: I beg your pardon?

Mr Phillips: I'd like to move that whereas the minister said he is looking for the committee's advice in meeting the deficit targets; and

Whereas the single, biggest issue for this committee to comment on is the planned tax cuts; and

Whereas for the committee to comment on the tax plan, we need to have some indication of the cost; and

Whereas these tax decisions represent a total decision of approximately \$6 billion and we currently have been given no government estimates,

The committee requests the Ministry of Finance to provide the following:

1. An estimate of the cost of implementing the following:

Mr Eves on his presentation on Monday said, "We will eliminate the first \$400,000 of payroll from the employer health tax."

I think members will recall in the Common Sense Revolution the promise was: "We will eliminate the employer health tax on small business with payrolls less than \$400,000. This tax cut will save Ontario's small business sector an estimate \$400 million."

The reason I think this is important is that it is quite a different plan by the government and I think something that has a cost of—

The Chair: Mr Phillips, are you reading the motion or are you debating it?

Mr Phillips: Okay, I'll keep going on it.

2. The estimate of the cost of implementing the fair share health levy. The Common Sense Revolution said: "Fair share" will generate \$400 million in revenues for the health care system. This will completely offset the \$400 million lost by abolishing the payroll tax on small business."

So it was spelled out quite—I'm not reading it, but there's the table that I think will give the indication of what we need.

3. An estimate of the cost of implementing the following statement: "We will cut your provincial income tax rates by 30% in three years. Half of the cuts would come up front...in year one."

While the government clearly has not made any final decision, we suggest simply using the assumptions from the Common Sense Revolution that produced the following tables—and you've got the table there.

If I might speak briefly to the motion, Mr Chair, because I think it will probably not have difficulty in getting the committee's agreement, first, let me say that I've been on the committee for some years now. When you're in opposition, you sit on these committees; I've been on them for many years now and without exception the Ministry of Finance gave us this sort of information as we requested it. In fact, if you go back and look at Hansard, the Minister of Finance would always come and go through all of these. If we asked any question like this, they'd say: "Fine. We'll get back to you." I've got all the background information on it to reassure the members who weren't here that that was the case.

I think the second thing is, I guess all of you have been business people at some time. If you're going to comment on a budget and give advice, you need some information. As I said here the other day, you couldn't have taken what the minister gave us on Monday to any bank and get a \$10,000 loan, let alone provide advice on a huge deficit. I think that if you can just for a moment take off the defence of the minister and say, "Listen, we're here to give advice and when we're talking about the possibility of giving advice on \$6 billion worth of information, we should have the information."

I think the third thing is, the information is readily available. This is not complicated stuff. It's all done. It's sitting over there. It was provided before the election, all done, so it's equally available after the election. I would just go through each of the three areas.

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One is there is a big difference on the promise on the employer health tax. I have no idea how much that's going to cost, I really don't. I don't know whether it was a mistake in the Common Sense Revolution, the estimate; or if it wasn't, then we're talking about something well in excess of \$400 million now. The CFIB was in here yesterday, the Canadian Federation of Independent Business, advocating this. The restaurant association I think was as well. Before we can endorse it, I think we should at least know what the number is.

On the fair share health levy, because in theory that's designed to offset the commitment on the employer health tax, once again we should have that estimate. It

was all there before the election; I see no reason why it isn't there now.

On the tax cut thing, frankly, let's all be honest with ourselves. The minister was saying, "Well, we're not sure what the promise was before the election." It could not have been clearer. It was down to the nearest dollar, the promise: "You will get \$934 in 1996-97 if you're making \$50,000." So this is not a mystery. It wasn't sort of, "Well, we're going to give a tax break." My opposition was holding this thing up and saying, "Listen, if you're making \$50,000, you know what you're going to get? \$934"—and by the way, it cranks up April 1. I know legally you can't do that, but that's what the expectation was, it would be adjusted so that the total year's benefit for fiscal 1996-97 would be \$934. Then below there, as you can see, the marginal rates are down to not one decimal, but two decimal points.

The promise in the Common Sense Revolution on the tax cut was about as definitive and as detailed as you could imagine, as you all know. You all ran on it. You must have been using this and saying at coffee parties: "Listen, you're making \$50,000. Come with us. You're going to get, in year one"—well, you can see it right there—"you're going to get \$934." Now you may want to change your promise. I don't know. It may be different when the budget comes out, but at least I think the assumption we have to make is that it is the government's intention to at some stage implement this, as I think the government members have asked everybody who's come in here: "Do you like the idea of a tax cut? Are you in favour of it?" I think by doing that, we should have a cost estimate.

I'm spending more time than I think I need to on this just because I want the members to understand. The background is that in every other year whenever we asked a question, frankly, it gets answered. Floyd Laughren used to accuse me of being in his office more than he was, because it is public domain, public information. This doesn't belong to Ernie Eves, this belongs to the public.

I say just in closing, I think the government members have got a fairly important decision, because if you don't insist on having this kind of information when you're considering the budget this year, you might just as well sort of just send in your ballots each time there's a vote in the House, because you will have virtually no input.

I think we can deal with it fairly quickly, Mr Chair. The reason I'm doing it today, by the way, is because we are going to need this detailed information when we write our report, which we will be beginning shortly.

The Chair: We'll go to the other parties for comments. Shall we proceed with the NDP? Ms Lankin.

Ms Lankin: I could be very quick. I would like some indication—can you sort of just by nodding tell me—are you intending to support this, because we don't need to debate it at length if there is all-party support?

The Chair: Ms Bassett, would you like to make comment for the government?

Ms Bassett: The government members are not going to support this motion. The motion certainly is not required. If you want to get information, you know full well, Mr Phillips, that you can give me the question and

I'll relay it to the minister and he will, I hope, endeavour to answer what he can or what he chooses.

Mr Phillips: May I respond to that?

Ms Lankin: I guess at this point in time, I will add a few words to the record and I'll save time for Mr Phillips to wrap up, because in fact it is his motion.

I find that answer unacceptable, as I'm sure you would assume. Let me tell you that this is the first time in four or five years that this committee has entered into pre-budget consultations without having been provided with some very baseline information with respect to the state of affairs of the finances of the province, as they are today and as they are projected in the medium and long term if no further action is taken.

None of the information we're asking for relates to decisions that are being made. We're not asking for information to be revealed that should be subject to budget confidentiality. We're asking for some basic data that have been provided in every other year—I've made this point a couple of times so I won't belabour it—things like medium-term and long-term projections on revenues, on the expenditure lines, on what the gap is in terms of where your deficit projection is and on where the lines are taking us if you don't do corrective action. Those are the things that have always been provided, and then the committee is able to provide advice on that basis.

May I say that information was always provided as well to the presenters who were coming before the committee. They were given a baseline set of circumstances to respond to and to advise you on. This is a very empty process we're going through in hearing interesting ideas but not often getting specific responses to anything that's been set out by the Ministry of Finance, because nothing has been set out by the Ministry of Finance. I find that very frustrating.

For example, on the question on the employer health tax, Mr Phillips has already asked that of Mr Eves and Mr Eves has refused to provide us with any information. The information I have from the ministry suggests that 90% of the employer health tax is collected from employers with payrolls over \$400,000. Your original promise in the Common Sense Revolution was that you were going to eliminate the employer health tax for those businesses with payrolls under \$400,000 and that this would cost \$400 million in lost revenue.

The employer health tax produces \$2.6 billion or \$2.8 billion in revenue to the province. If you're going to cut off 10% of it, that's not \$400 million. The costs don't add up. So it is reasonable to ask. Maybe the number was right and the description was wrong. Maybe that's why the promise is being changed now, I don't know, but that's a reasonable question to ask.

With respect to the lost revenue on various models of the 30% income tax cut, we're not asking for information that would be subject to budget secrecy or that would have any impact on markets, for example, because the commitment is already out there. You've already indicated that you're going to do this tax cut and you've already given a fair amount of detail in the Common Sense Revolution. You may be looking at other options. We're saying, "Give us some information around the

options and the cost and we can provide you with some advice on it."

I just want to remind you, from Hansard from Monday, that I specifically requested this of the minister. I said:

"Let me turn to some specific questions and perhaps we can find out if any of this information will be forthcoming. You've said on a number of occasions today that you have not made any decisions with respect to the tax decrease, and I believe you on that, that there are a number of options of how the Common Sense Revolution promise could be interpreted. Would you provide this committee with a range of options of how you could accomplish an average 30% decrease in personal income tax and what the lost revenue projection would be so we can provide you with some feedback on that?"

The minister answers, "If Finance officials are able to do that, I certainly have no problem with exploring that dialogue with the committee."

We've not received anything. I think that commitment was made to the committee, and you are all part of this committee. The minister made a commitment to us—not to me, to us as a committee. It is, I think, appropriate for us as a committee to request information of the minister.

You do have some role, as members of a committee that is somewhat independent of the whole process of what's going on over in the Ministry of Finance. You're not going to be making those decisions, but you are being asked to provide advice. I suspect your advice will be quite consistent with what the Finance minister is thinking of doing, and that's fine, but you should at least be giving that advice based on some information.

I find it very difficult to accept from individuals comments like, "This is fine; we have sufficient information," only I guess because of the experience I've seen in the past in terms of what has been provided. I don't know whether you would like to look at the comparison. All of the comments I've heard from folks about levels of taxation—I have chart after chart after chart—don't you think you should take a look at some of this information? Don't you think it would be useful? This is from the Ministry of Finance, by the way. Don't you think that would be useful? This was produced September 1995 under your government.

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I really think this is an important motion for the committee to support and I urge you to rethink that position. I don't think they should be independent requests from individual members; the request should go to the minister from the whole committee.

The Chair: Further debate from the government?

Ms Bassett: There's no debate from the government. I made the statement; it hasn't changed. We're not going to support the motion.

The Chair: Do you wish to have a further, short summing up, Mr Phillips?

Mr Phillips: Let me be very blunt. I asked the minister for this information in writing, fundamental information for the public to know and we've been stonewalled. There's no other term but "stonewalled." I tried to do it politely in a way that we did it every other year, in a non-partisan letter, copies of which you all had, asking

for something the public has a right to know, and you're stonewalling, the minister's stonewalling.

I don't have any faith at all, if I simply say to the parliamentary assistant, "Please, please, please go over and see if he won't give us this information." He's stonewalling and it's not acceptable and it can't go on; it really can't. This is not some private, little business that he's running—he and his partner Mike—this is the public's business, so it's unacceptable for me to sort of ask on bended knee that we get the information.

Now you're going to be part of the stonewalling. You're buying into it if you don't change your mind right now. I just say to you that if you buy into this it's unacceptable; it won't stand. The public won't stand for it. The public has a right to know this information.

You came here, presumably, to make a contribution. Do you really think you don't need this information to comment on the budget. Have you any financial experience at all? Are you just going to salute and say, "Go ahead with the tax cut; I don't care what it costs"? Are you going to go ahead with a promise that you didn't even know you'd made, without knowing the cost of it? You look foolish on this.

It's not unlike, frankly, what we saw on Bill 26, and it became known as the "bully bill." This is similar. The problem is, you didn't have a choice on Bill 26, they introduced it and told you to defend it, but now you're buying into this problem. I would just say to you that if you don't change your mind now on this, insist on the information and have it before us when we make our decisions, you and the whole government become part of what I call stonewalling, hiding fundamental data from the public, and it will not stand.

The Chair: I'll put the question. Should Mr Phillips's motion carry?

Ms Lankin: Recorded vote, please.

Ayes

Castrilli, Kwinter, Lankin, Phillips, Silipo.

Nays

Bassett, Brown (Scarborough West), Carr, Ford, Hudak, Marland, Spina, Wettlaufer.

The Chair: The motion is defeated.

Ms Lankin: Given that the Minister of Finance won't provide any information and given that I requested information around various types of per-point yield and various types of taxation, and given that the comments of the members opposite day after day have made it clear that they don't know what the tax policy is in the province of Ontario in the different rates, I would like to provide the committee with information from the Ministry of Finance, an overview of Ontario's tax system, 34 pages of good data about Ontario's tax system. This is not all we need but this will at least be helpful, and it's a damned shame the government members don't think it's important enough to be asking for this information of the minister themselves.

Mr Ford: You have it already.

Mr Wettlaufer: You have it already.

Ms Lankin: No, you don't understand what we're not getting.

Mr Phillips: No, you don't have it. You guys are foolish. How could you even comment on a budget when you don't know anything you're talking about?

Ms Lankin: It's crazy.

The Chair: The clerk will distribute that information to the committee.

Before we recess for lunch, we have the issue of rescheduling the presentations from yesterday afternoon of the Older Women's Network and the Toronto International Film Festival. I understand we could do that next Wednesday afternoon.

Mr Stockwell: How's Saturday?

The Chair: Next Saturday afternoon, or if there's any open slot, we could slip them in. Would this meet with the approval of the committee? Agreed.

Finally, can the subcommittee have a meeting at 12:30 pm on Monday, February 12, to finalize the agenda and the travel arrangements of the auto insurance inquiry?

Ms Lankin: I was just going to ask if you would speak to the subcommittee members of this committee about my request on Dr Fraser Mustard.

The Chair: We are recessed till 1:30 this afternoon. We have a full agenda this afternoon.

The committee recessed from 1226 to 1332.

NATIONAL ACTION COMMITTEE ON THE STATUS OF WOMEN

The Chair: I see a quorum. The National Action Committee on the Status of Women will be presenting to us, Ms Vuyiswa Keyi-Ayema.

Ms Vuyiswa Keyi-Ayema: My name is Vuyiswa Keyi-Ayema. I am a member of the National Action Committee and I'm on the executive of the National Action Committee. We wanted to come and make a presentation here because of our concerns around the financial decisions that the government makes and the direction that it takes, and the impact particularly on women. For me, our main issue really is to be here to remind the government that the provincial government is also bound by the commitments that the federal government makes internationally around what they're going to be doing with other governments in the world to protect citizens and residents in their countries.

In the recent Fourth World Conference on Women, in Beijing, the Canadian government made commitments, alongside other governments, for the advancement of women's equality, which they reaffirmed at that conference. These commitments require that Canada, among other things, ensure that women are not adversely affected by policies introduced to respond to changes in the global economy, to ensure that economic and financial policies not adversely affect poor women, to support publicly funded quality child care as a fundamental premise of society. Alongside these, the financial decisions that the government makes impact on other areas of women's lives, including their health, their social services support, their ability to work, their ability to support their families, their ability to function and to attain equality in Canada. We have real concerns around the way the budget has been decided and has been carried out so far.

Part of our main concern is that we are worried about the impact this will have on women, particularly on poor

women. The tax cuts that have been proposed are not really going to support and serve women as well as the government claims they are going to, because what's going to happen is that these tax cuts are going to go across the board and support other people who already have more money than women have.

The way in which Bill 26 was railroaded into policy and into legislation has left a lot of people without any resources or any supports or any ability to challenge any situations that are going on in their lives. We would like to submit that women and children stand to lose the most through the proposed budget cuts and through the proposals that are contained in the bill just mentioned.

We want to draw the committee's attention to the submissions of the Ontario Coalition for Better Child Care, which we endorse, for more elaboration on the impact on women and children. I think it is really important for this government to take the responsibility to evaluate and examine any policies that it comes up with for the gender impacts they may have, for the disproportionate impacts these policies will have on women particularly, because there is a link between the structural restraints arguments that are being used here with the structural adjustment programs that have been implemented in Third World countries, where again and again women and children have suffered the most from the structural adjustment programs that have been designed by governments that include Canada, the US and other countries of the G-7, to look at how they contribute towards the support for countries in the south. The same impact will happen for women who live in the lower-income brackets in Canada right now with the kinds of restraints and the kind of support that the government is talking about.

We are also concerned that there's a lot of talk about the deficit itself which does not take into account the compounding interest that has been gained by banks and other relatively modest program deficiency expenditures. The need to deal with the deficit should not be centred around the need to deny people programs and services and support and financial resources, because that is not where the expenditures have been in the past in terms of where the moneys have been spent the most. The Canadian government federally has spent a lot of money on the military, on defence, on a lot of other issues that have not been looked at to see what else could be cut in there before people decide to cut social services in women's lives and impact on women in that way.

That basically is the gist of our proposal, of our concern to the government around the budget and the process that is going to be used, that we would like to see the government take a look at the impacts on women. We would like to see the government review the process it has been using so far and start to implement a new process and a different process that is more inclusive, that is participatory, that allows for more consultation with everybody so that people have input into exactly how the government is going to make decisions about finance changes in the system.

Ms Bassett: First of all, thank you for your presentation. I'm the parliamentary assistant to the Minister of Finance and I want to say he's most interested in getting

suggestions that everybody has who's making a presentation, and what we want to do is take back your ideas.

What I could ask off the top, what I didn't hear: Do you think the problem of the deficit is a major problem facing us, or is it just how we're dividing up the pie that is a problem?

Ms Keyi-Ayema: I'm not denying that there is a deficit. I think globally there are deficits in all governments internationally. We have a problem with these proposals to deal with the deficit itself in terms of their impacts on lower-income people. We feel the proposals that have been suggested, the cuts that have been made to social services and so on in an attempt to come up with some financial restraint system, are impacting on people who have the most to lose already.

Ms Bassett: Where would you make the cuts? It's always a hard thing to do.

Ms Keyi-Ayema: I think the provincial government should really be fighting with the federal government instead of the people in the province. I think the provincial government should be dealing with the federal government around how the transfer payments are being made, around how the federal government is making expenditures in particularly the military and defence and in those kinds of different areas, and look at those and look at how the banks are structured and how that's working and how that impacts on provinces and how the money gets divvied up among the provinces. That's where the debate should be, as opposed to provinces turning back. It becomes a pecking order from the way we look at it, because rather than deal with the federal government and make changes at that level, the changes are being imposed on people who have the least to give to make the system more viable financially.

1340

Mr Wettlaufer: You say we should approach the federal government about how it could be divvied up, but assuming that all governments are going to be cutting costs—and this is going on worldwide—assuming that the federal government isn't going to revise how it's going to divvy up the federal pie and that we are going to have to continue to cut our costs, where could we cut them? I think we're looking for help from the people coming in making the submissions as to where they would recommend we make the cuts. Where would you?

Ms Keyi-Ayema: We would have to have a bit more time to go through and figure out exactly where the cuts would be, but I think there could be more cuts in looking at, for example, the whole tax cuts that are being proposed, the structure of how that's going to be done. I think it needs to be reviewed and looked at in terms of, does it really benefit the people and is it going to make that much of a difference? Are the people in the higher echelons of economic possibilities in life—I don't know the language for this—are we taxing enough in that area to make sure that we divide up the money properly?

When we say we're going to give people a tax cut and then turn around and say to them they have to pay for certain health services and other things, they end up without very much in their hands to use to cover the support that they need. The tax cut itself is not going to be enough. If somebody's only making \$15,000 or

\$20,000 a year and they have a tax cut, even if it's a tax cut of 30%, and then they have to pay for all kinds of different health services for themselves—particularly, for example, in social services, in child care—in order to be able to work and even earn that kind of money, the tax cut itself is going to end up not meaning much for them. It will end up, all of it, going back again into not supporting any of the other things they may need in their own lives as opposed to just supporting those already making enough money in the system.

So I think it needs to be reviewed and I think time needs to be taken to review these with all the parties and have everybody sit down and take time to do it, rather than rush into making changes that have serious and gross impacts, particularly on women and children.

Mr Wettlaufer: We have received some input from different proposers, some saying that the tax cut is going to be beneficial and some saying the tax cut won't be beneficial, so I guess it's a matter of conflicting testimony and it depends on where you come from, but we are looking to achieve efficiencies in government, and that means we do have to cut spending. I guess we're hoping that people will come forward and recommend to us areas that we can reduce our spending, because obviously that's what our mandate is.

Ms Keyi-Ayema: I think one of the biggest concerns we have had is the process itself. People have not been given enough time to work through these issues and to make the changes that are made. In a sense it kind of makes a mockery of the government's own commitment to participation and full consultation and full participation by everybody in the system when you give people only two or three weeks to participate and make change and review all the changes that need to be made in the system.

The process itself is flawed and is problematic. It is not allowing room for participation that's going to make sense for everybody. There's a sense of panic that is being imposed on everybody that makes it really difficult for people to work through and make the changes together with the government that need to be made. I think that, to me, would be the biggest problem that we see with the process itself as well as the kinds of suggestions that are being made that have not been made with full consultation at the beginning.

We appreciate that the government has to make a suggestion and put forward an idea and ask people what they think makes sense out of what they see, but when you've only got less than a month or less than two months to respond to a proposal that has such a major impact on everybody, it really makes a mockery of the whole process that says: "We are working with everybody and we are encouraging participation and we want to work with everybody. We want to hear what everybody says, even those people who are saying the tax cuts are going to help. We would have to sit down with those who say they don't help and look at where they help and where they don't help, because obviously they probably help in some areas but they definitely do not help in all areas."

We see the direct impact on women. I work in a community health centre for women right now which is

the only community health centre for women funded by the provincial government, Women's Health In Women's Hands. Immediately since the summer we have seen an incredibly high number of women who are coming in facing a lot of real problems with the kinds of cuts that have been made to their family benefits cheques, to their welfare cheques, to the way in which they're being treated and how they are going through getting some—you know, their lifestyle. So the mental health of women, the lifestyles, just all those different things are directly impacting on people before they've even had a chance to sit down and say, "Okay, what is really going to make sense for all of us, that's going to make sense for everybody?"

It's one thing to react and say, "We came in here to cut the deficit," but it's another to say, "This is what we're going to do and you've only got one month to respond to it." It's very problematic to do it like that.

Ms Castrilli: You made a statement earlier on that cuts will affect women and children disproportionately. I wonder if you might elaborate on that for the committee. How would they affect women and children disproportionately?

Ms Keyi-Ayema: In the last few decades we have seen, for example, an increasing number of single-parent families, most of them largely run by women. We have seen a large proportion of women who are not able to access child care services for their children so that they can go to work or go back to school in order to get the qualifications to get work. So when we look at the disproportionate impact and we look at the changes and suggestions that are being made and the cuts that are made to several services—to social services, to health services, to costs for prescriptions and so on—there is going to be a direct correlation of that to women's lives and what women are able to afford; women coming out of divorce, women who are on their own, older women who are now living on their own who have to pay for health care and have to pay for a whole host of other things that they didn't have to pay for before.

Those are the kinds of things I'm looking at: women who don't have the possibilities or the opportunities to raise enough money to pay for the kinds of services they are now being told they have to pay for on their own. To be forced now to make choices, what is a healthy choice to make, what is a healthy diet, right down to nutrition and all those different things begins to impact directly on women and children in that context.

Ms Castrilli: I'm looking at some figures which the government presented in its Common Sense Revolution. It looks at incomes of \$25,000, for instance, and looks at the tax change implication for those individuals. It looks like the first year, for instance, they would receive \$425 in tax savings, \$638 the next year and \$850 the next year, which is roughly about \$1,800 or \$1,900. You indicated earlier that you felt that some of the savings that people would receive in tax reductions would in fact be eaten up by additional fees that individuals would have to pay. Would you say that many of your groups would exceed the \$25,000? People whom you represent, would they be in that range of \$25,000?

Ms Keyi-Ayema: Most of them not. Some of them are on family benefits, so they're not making that. If you're on family benefits and you're getting \$20,000 or \$22,000 a year, that's not taxable income, that is not considered income, so you don't even benefit from the tax that other women are getting. It makes no change, and yet they still have to pay for all these services beyond that.

Ms Castrilli: So in fact even the minimal savings that would be indicated here would not affect a great many of your members, who would at the same time have to pay all the additional services of people who would be making twice that much, or even more, because the services are flat-lined. They're not according to income; they're the same for everyone.

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Mr Silipo: You mentioned that you endorsed the positions taken by the Ontario Coalition for Better Child Care. We'll be hearing them later on this afternoon, so we look forward to their presentation with respect to child care. I'm familiar also with a number of the decisions they have taken and understand the importance of child care as one of the key issues for women, and indeed families, in terms of being able to get and keep jobs.

One of the things I'd like to pursue a little bit more with you is this notion that has been very clear from the government side. You heard it again today in the questions around the fact that they clearly have accepted and we see that their mandate is to make cuts to the deficit, to bring the deficit down. What I didn't hear and what you won't hear them also talk about is that while on the one hand they say they're very concerned about the level of debt that we have in this province, the actions they want to take to put in place a 30% tax cut are going to actually increase the debt by about \$20 billion over the next four or five years. I just wanted to make that point.

But coming back to the tax cut, as you just said, many people with low income—and that includes, unfortunately, many women—many single-parent families will see very little benefit by way of those tax cuts either because they're on social assistance or unemployed or because their income is so low they won't see the benefits.

One of the things we've been striving to try to get across to the government is that while there is agreement on the need to bring the deficit down and to bring the deficit under control, what they are doing seems to us to be somewhat backwards. What they seem to have done so far in a number of actions they've taken is to hit hardest those who are among the lowest in terms of income across the province, whether it's the welfare cuts, whether it's the cuts to child care, whether it's the cuts in education now or many others. I guess I'd just like you to talk a little bit more about that.

In effect, everyone understands the need for government to be spending less, but what we seem to have a lot of trouble getting government members to understand is that what they have done so far and what they presumably will continue to do is not going to be felt equally across the board. In fact, people of middle- and low-income backgrounds and people who live in poverty are going to bear a much harder brunt of those cuts. I just give you the chance to talk a little more about that reality because it's the only chance we have to get some of the

government members to listen to what that actually means out there.

Ms Keyi-Ayema: I don't even know where to begin. For example, the cuts, all those cuts that are being made right now, the direct impact that we're actually seeing at the local service level is to women who are losing their housing, women who are not able to pay for their housing any more because they've had either their welfare cheques cut or they've now got to pay for child care that they didn't pay for before, that they were not able to access before. The waiting lines for women to get child care to be able to go to work have always been long in Ontario. Women have lost homes. Women living in violent situations in their lives, and there's a very high proportion of women who are living in violent situations, who end up having to go to shelters have no access to second-stage housing because that's been cut. Women who have serious health problems that they cannot have access for, some of the processes of treatment for things like cancer and so on, are now also being put aside for people to have to pay for themselves; different types of chemotherapy are being charged for separately. There's a whole host of different areas that women's lives are being impacted on directly.

We get calls from women who are falling through the cracks because of no support in different places. They've no access to education; they've no access to language training any more. Job training programs are not adequate and they're not available any more because those are being cut as well. So as the government is talking about people going back to work and people becoming self-sufficient, a lot of women have continuously volunteered for years and years and for decades and we've always done that. But the amount of stress that's being put on women now to do extra pieces of work without any remuneration, without any support in terms of food, financing for their education, for work site support, for child care, for clothing—all those fundamentals that are not luxuries at all are really critical.

This year, 1996, has also been declared the year to eradicate poverty. Yet, the financial restraints that the government is taking are increasing the poverty of women, particularly the poverty of people in low-income brackets.

People come to Canada because Canada has always had the reputation for being the place where you've got the opportunities to do the support. A lot of immigrants, and refugees particularly, who come to this country don't want to go on welfare. They come to the offices and they say they really don't want to be on welfare because they feel like they're no one. They came from places where they worked before. They want to continue to work. They have no access to jobs, no access to job training, no access to their professions being validated. So they end up being on welfare.

Everybody says, "You're going to get a 30% cut." When you're on welfare you don't get a 30% cut, so when you get a job that's paying even less—sometimes they end up in jobs that pay less than minimum wage—women who are working in restaurants, who are working in factories, who are getting less than the minimum wage that everybody else is entitled to—because they don't

even know they've got the rights to that. There are no supports in place for women in those kinds of situations, for women who are coming out of divorce, for women who have children.

The education system, class sizes, I could go on and on, but the upshot of all of this is that the target for the cuts that the government is making is the wrong people, because the people who are going to suffer the most from these cuts are people with absolutely nothing to give any more, who volunteer and volunteer until there's nothing else they can volunteer to give to anybody else. So those kinds of things are really, really problematic with the process that is being used in the changes that are being made in the financial system.

The Chair: We appreciate your presentation to the committee. Thank you very much.

MUNICIPAL ELECTRIC ASSOCIATION

The Chair: The next group that we have is the Municipal Electric Association, Mr MacKenzie, Mr Jennings and Mr Martin.

Mr Elvin Martin: Thanks for the opportunity to appear before this committee. My name is Elvin Martin. I'm the chair of the Municipal Electric Association. I am also the chairman of Waterloo North Hydro. With me is Mr Jim MacKenzie, our president, and also general manager of Guelph Hydro. Mr Tony Jennings, our executive officer, sends his regrets. He was called away on other business at the last minute.

The MEA represents Ontario's municipal electric utilities. The MEA's role is to help our members provide quality, cost-effective service to their customers. We help utilities speak for those customers.

To give you a sense of our work, the majority of our staff and volunteer committees help utilities control costs through the joint provision of up-to-date trades and non-trades training; educational conferences; insurance services; labour relations assistance; guides, manuals and advice on customer service, rates, energy management, administration, human resources and engineering. Another part of our activity is devoted to representing members in discussions with government, Ontario Hydro and other industry-related groups. With the changes that are coming in the electricity industry, this representation activity has taken on a higher profile.

Our members deliver electricity as a local service on a full cost recovery basis, with no recourse to taxes. These municipal electric and public utility commissions operate on a not-for-profit business basis, responding to the needs of local residential and business customers. About a third of our members deliver services other than electricity, most commonly water.

We welcome the opportunity to meet with the members of the standing committee on finance and to participate in the pre-budgetary process. Through this process, we want to encourage the government and Legislature to consider all electricity customers, both in the budgetary exercise and in related changes you will be considering in the electricity system and local government reform. We would like to spend about 15 minutes on our presentation and then open the floor for other dialogue.

I'm sure we all agree that electricity plays a critical role in the health of our economy and in our daily lives. Historically, Ontario's safe, reliable supply of electricity at low rates has given us a competitive edge in attracting capital investment and contributing to industrial expansion. Within the last few years, the Ford Motor Co acknowledged that a reliable, inexpensive supply of electricity was a major reason for choosing Oakville over St Louis for a half-billion-dollar expansion. This same type of investment decision is reflected in Toyota's Cambridge car plant and Honda's investment in Alliston.

1400 Ontario has traditionally enjoyed very competitive rates; however, in recent years Ontario's rates were losing their competitive advantage. Residential and commercial electricity rates in the nearby US states such as Illinois, Indiana, Michigan, Minnesota, New York, Ohio and Pennsylvania are still well above those in Ontario. Although industrial rates are more comparable, Ontario still has among the lowest rates in this category. Nevertheless, the widespread surplus of electricity has allowed many US utilities to introduce special rates to attract and retain customers. Ontario Hydro has responded with their own new rate strategies. MEA has supported the new rate strategies where Ontario Hydro has done the analysis necessary to ensure that other customers are not adversely affected.

The provision of economically priced electricity is important for the health of Ontario's economy for two key reasons: to attract and retain large industrial customers, and to provide relief to residential customers and small and medium-sized businesses.

In the Common Sense Revolution, the provincial government acknowledged the need to put more money back into the pockets of individual Ontarians. Just as the promised cut in the provincial income tax rate is supposed to stimulate the economy through increased consumer spending, lower electricity rates will contribute to a similar outcome. What good is a reduction in personal income taxes if that reduction is eaten up by higher rates for services such as electricity?

Low electricity rates are also essential for small and medium-sized businesses which create 80% of the new jobs in Ontario. If 725,000 new jobs are to be created over the next five years, small and medium-sized businesses will have to be given the tools to create those jobs.

Talking about jobs, there is one way for government to reach us all and contribute directly to the economy through small and large businesses. Currently, the government charges Ontario Hydro, and thus all electricity customers, rent for the water flowing through hydraulic generating stations. At the beginning of the decade, the provincial government began charging for the guarantee on Ontario Hydro's debt. Together, the debt guarantee and water rental charge cost the electricity system and our residential and business customers \$284 million. Removing these charges could provide an immediate decrease of almost 3% in the cost of electricity.

We would like to acknowledge that the government has directed Ontario Hydro to freeze average rates for five years. In this connection, we are pleased to see Ontario resisting harmonization of the sales taxes. When

the GST was introduced by the federal government, our residential customers saw a real increase in electricity costs. Applying the provincial sales tax or some higher, blended tax to electricity would similarly increase electricity rates.

It is clear to municipal electric utilities that change to the current electricity system is inevitable and in fact welcomed. In any restructuring process, the first steps are most important. In 1992 the MEA began to look at industry reform. We drew on expertise from within the province and consulted with knowledgeable people from around the world. We recognized that electricity rates in Ontario were losing their competitive edge and that there was a need for real change. We have included a chart, which is at the back of your copies that you received today, that demonstrates the impact of escalating rates on our customers. This chart that you have received is from Guelph Hydro, but is typical of any municipal electric utility.

The provincial government also recognizes that there must be changes in the electricity industry in Ontario. As you are well aware, the government has appointed the Macdonald committee to evaluate options for phasing in competition in Ontario's electricity industry. It is to report by April 30, 1996. Last week the MEA made its formal presentation to the committee. We are leaving copies of our proposal with you today.

At this point, I would like to invite Jim MacKenzie to review the highlights of that model for restructuring the electricity industry. We believe this model will bring rates down; other proposals on the table we believe would increase rates.

Mr Jim MacKenzie: Good afternoon. Our proposal to the Macdonald committee recommends significant changes to all aspects of Ontario's electricity industry. It contains 29 recommendations. We don't intend to go through all 29 this afternoon, but we'd like to touch on some of the highlights of our model and some of the key points.

Firstly, we believe that the electricity industry should be vertically unbundled. There are three distinct parts of the electricity system: generation, transmission and distribution. We believe they should reside in separate entities with independent governance. The generation, transmission and distribution functions currently performed by Ontario Hydro should be transferred to separate corporations. We say more about Ontario Hydro's distribution function later on in our presentation.

We also recommended that there should be horizontal deintegration of existing generation. In order to facilitate competition, generation currently owned by Ontario Hydro should be separated into multiple nuclear, fossil and hydraulic generating companies.

We also recommended to the Macdonald committee that the transmission company, which is a natural monopoly, should be publicly owned. There are no apparent benefits to be gained through private ownership of the transmission system. Private ownership would increase rates through the higher costs associated with capital, taxes and a requirement for a return on equity. More vigilant regulation would be required to protect against monopoly profits and to ensure fair access to the trans-

mission system. By contrast, public ownership protects against reintegration of competitive portions of the industry with monopolistic ones, which by way of example is occurring right now in the UK where distribution and transmission are in the private sector.

We have also recommended that a competitive wholesale market should be established. Our association believes that all private and public generators should have the opportunity to supply the wholesale market for power on a non-discriminatory basis. Electricity would be purchased by the pool, through the transmission company, on a competitive basis from least-cost suppliers. In turn, all electricity customers would benefit from the least-cost electricity.

Further, the power pool concept should be retained. The presence of a wholesale power pool is fundamental in that it provides equitable access to reasonably priced electricity to all distributors and therefore to all end-use customers. It will also act as a vehicle for pooling risks which may be associated with uncertainties in the price and availability of electricity. There are a number of benefits to maintaining the pool.

We've also recommended that distribution companies should be locally owned and locally controlled. First, distribution is a local natural monopoly, and second, local ownership is a means of ensuring responsiveness to local needs and is shown to be the most effective way of serving local customers.

Many may assume that private sector services are cheaper. For electricity, the opposite is true. By way of example, in the US there are some 2,000 municipal electric utilities publicly owned, and the number is increasing. The average residential customer served by them receives electricity at rates 30% below those from investor-owned or private utilities. Commercial and small industrial businesses, on average, have rates from municipal electric utilities that are still about 15% below those of the investor-owned utilities. We have attached a chart from the US Department of Energy which outlines the difference in rates in the United States. To make the record complete, I should note that average electricity rates for large industrial customers are about the same from either public or private utilities in the US.

The customers' interests in low-cost, reliable service must remain the primary focus in Ontario. Privatization of municipal electric utilities is inconsistent with the interests of their customers. To ensure that customers continue to enjoy reliable electricity at the lowest price, we would recommend that municipal electric utilities remain locally owned and locally controlled.

We also recommend that retail access should be rejected. Ontario Hydro and large industrial users are promoting retail access, which would require individual customers to compete for their own electricity supplies, on the basis that it offers customer choice. We believe this will have a negative impact on residential customers and on small and medium-sized businesses in this province. The fact is that choice would not be a reality for most customers. It might become a reality for the large customers, but at significant cost to everyone else.

We've also recommended that the distribution of electricity should be separate from transmission and

generation. Distribution currently performed by Ontario Hydro should be assumed by local distributing utilities. In particular, we submit that responsibility in remote and unorganized territories in the province should devolve to separate, unrelated, independent, customer-governed utility commissions. These commissions would operate under the same conditions that apply to all utility commissions.

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We also recommend that the electricity distribution system should be restructured once it is separated from generation and transmission. Our association and our members acknowledge that new efficiencies can be realized at the distribution level. To that end, we suggest that once distribution is separated from transmission and generation, the distribution system should undergo restructuring.

Uniform utility structures, in terms of size and types and levels of service, throughout this province are neither necessary nor desirable. Nevertheless we suggest that distributing utilities should be no smaller than a municipality, no larger than a region, county or district. Distributing utilities should be shoulder to shoulder, contiguous across the province.

Locally driven studies paralleling municipal restructuring are proposed. If our timetable is accepted, these will occur in the three-year period from January 1997 to the year 2000.

A recent study performed by Coopers and Lybrand did not find any significant unexploited returns to scale in the distribution sector. The study's results are consistent with studies of distribution performed in Norway and Sweden, both of which have over 200 distributors. We would also point out that Germany has over 800 municipal utilities and is considering municipalization of about another 100 to 150. New Zealand also has a large number of distributors under local control.

This study tells us two things: first, that Ontario is not unique in its use of municipal electric utilities, and second, that small and medium-sized utilities enjoy efficiencies which are unmatched by very large utilities.

We have also recommended that a merger of distributors with Ontario Hydro should be rejected as it is anti-competitive and anti-customer. We believe that such a merger would be fundamentally anti-competitive and anti-customer. Any merger would only further strengthen the monopoly power of Ontario Hydro. Finally, it would require regulatory acrobatics to protect the customers.

Obviously one of the reasons that Ontario Hydro supports a merger is because that corporation believes it will solve its financial problems. We don't think that's a likely outcome. In fact, a merged organization would eliminate the threat that the municipal electric utilities might seek supplies elsewhere and thus remove any incentive for Ontario Hydro to put its own financial house in order. Instead, the objective should be to maintain the pressure to be competitive on the generation side of the business, through the municipal electric utilities and their customers.

One last point on the question of the so-called merger: Frankly, we're astounded that Ontario Hydro seems to believe it can expropriate the municipal utilities' \$6 billion in assets with the stroke of a pen.

In summary then, our model recognizes that generation is no longer a natural monopoly and consequently should be subject to competition; that transmission is a natural monopoly and should be under local control; and that the power pool principle of uniform wholesale rates at cost should be maintained and retail access should be rejected. Our association and our members believe that this model represents the best way to accommodate sound industry reform in a way that will protect the interests of all electricity customers and benefit the Ontario economy.

Elvin will offer some conclusions.

Mr Martin: In closing, let me repeat that electricity plays a critical role in Ontario's economy and in our lives. A secure and accessible supply of competitively priced electricity has always been a key economic driver in Ontario.

Earlier this week, the MEA representatives met with the Advisory Group on Municipal Government Reform, chaired by Mr Ernie Hardeman MPP. We reviewed the electricity restructuring issues which Jim presented. We also discussed the continued use of local public utility commissions. These standalone, self-supporting, not-for-profit, municipal businesses serve customers with no recourse to taxes. With the fiscal challenges facing governments at all levels, we believe this public utilities approach can continue to serve Ontario well. I won't go into any of the details of the material, but we have attached some of the information that was provided to the Hardeman advisory group. That's part of your package.

In order for Ontario to continue to enjoy the benefits of a reliable supply of electricity at low rates, major restructuring of the electricity industry is required. The MEA and its members have developed a model which allows Ontario to continue to enjoy the economic advantages from electricity. We urge you to support our efforts to serve our electricity customers and our communities even better.

Thank you very much and we would be pleased to answer any questions you may have.

Mr Monte Kwinter (Wilson Heights): Thank you very much for your presentation. I was very interested in your analysis of what was happening. I want to talk about the whole thrust of privatization of Ontario Hydro.

In the chain of delivery you talk about generation, transmission and then distribution. Your position is that you would not be averse to competition at the generation level. If you have cogeneration, if you have people who have private generating plants, they could sell into the grid. There is a natural monopoly as far as the transmission is concerned and then you feel that the utility commissions, MECs, are probably, because they're not for profit, the most efficient way to get the power to the customer. In Ontario, we've always had that as a competitive advantage.

If that is the case, why would there be any case for privatizing? Other than that, as you say, in the competition for generation, how could the private sector do it any better considering they have to have a for-profit kind of input into whatever they do?

Mr MacKenzie: First of all, our model talks to reforming the industry first; in other words, separating generation from transmission and distribution, separating

it into component parts. We address industry restructuring in that point of view before we feel there should be any discussion about privatization.

We think it's important that the monopoly that exists with Ontario Hydro be broken up and that that corporation be unbundled and that separate generating companies be formed out of Ontario Hydro. Those initially could be maintained as competing generating companies, publicly owned. In terms of private sector capital in the generation area, there are some independent power producers now and we would see that as new generation is required in this province, it's likely that private sector moneys can introduce new generation capacity as it's required and, in that way, you introduce private sector risk capital into the electricity industry.

Mr Phillips: On Bill 26, one of the things that I felt was happening there was that the skids were being greased for municipalities to essentially take over the local electrical organization and then to sell it off. It looked to me like that at least there was the potential for some short-term gain on selling off some assets. Obviously then the users pay off that debt. But was I interpreting the bill properly, that that's at least one possibility as a result of the bill?

Mr Martin: Yes, I think you've interpreted that correctly. I think you were in Windsor when we made our presentation there and we were strongly recommending that an amendment be made to Bill 26 to leave in place the issue of the referendum where the people who receive the electricity—

Mr Phillips: It didn't carry.

Mr Martin: —I realize that—the people who receive the electricity would have a say in who supplies it to them and have a say in how it's controlled.

Mr Phillips: My concern right now is, I have a feeling that the Hydro thing is on an awfully fast track and that the experience that I've had with this government is that it may very well bypass any public input and just—snap—it'll be done. I would think one of the things that at least we might try to do here is to ensure there is a very reasoned debate around any plans for Hydro and that may be one of the recommendations we can get in this report.

I gather from your report that the studies that have been done would suggest that it's a little bit difficult to find where privatizing at the local level has been to the taxpayer's advantage. Are there any studies that would suggest that it is to the taxpayer's advantage to privatize at the local level?

Mr Martin: I don't believe there are any that we are aware of. We have the experience of private versus public in the US, but I don't think there's any experience that you can draw on here in this province that would indicate that it would be advantageous to privatize.

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Mr Phillips: You mentioned a \$6-billion asset, I think, that you feel maybe Hydro has its eyes on. What are the components of that \$6-billion asset?

Mr MacKenzie: The \$6-billion asset, that's the collective sum of all the plant and equipment that municipal utilities own across the province. I think Ontario Hydro have more than just their eye on it. It's quite clear in their presentation to the Macdonald committee that

their proposal is to have all of the municipal utilities merge with their transmission and distribution.

Mr Phillips: Is that \$6 billion net of debt or is that \$6 billion with a certain debt against it?

Mr MacKenzie: Municipal electric utilities have very little debt. In fact, many municipal utilities have no debt at all. That's the net figure.

Mr Marland: Like Mississauga.

The Chair: A unique concept. That was almost partisan.

Mr Silipo: Like Mr Phillips, I heard your presentation in Windsor and I can tell you, as I kept making reference a couple of times throughout the balance of the hearings on one of the basic points that's remained with me from your presentation, which you make again today, which is that as you look at other jurisdictions, particularly the US, there is really no economic sense to privatizing public utilities. In fact, in terms of what is presumably most important at the end of the day, which is how can we offer a product to the consumers, that could be done a lot more cheaply by maintaining utilities within the public domain.

I wanted to understand more. It really is a genuine wish on my part to understand more what leads you to, as you split up the three parts of the system, as you suggest, within the first part, the generation, that there you do see that there could be privatization. Is that because you think there is something inherently useful about the competition that might come or is it because if it was kept in the public domain there would be more of a reluctance for investments to be made in the various generating systems that you refer to here, nuclear, fossil and hydraulic? I just want to understand the rationale behind that a little bit more.

Mr Martin: One thing we haven't talked about here is the issue of stranded assets and stranded debt which would have to be taken care of over a period of time. During the transition period hopefully some of that would be taken care of and at some point in time existing power plants will have to be either refurbished or mothballed. Also, technology today allows for smaller size generation units to be built, fired by natural gas, and would then offer the opportunity for other people to get into the market on a much quicker basis. And as need requires, it would be opened up for people to supply that generation and that could come from either the public sector or the private sector as well.

Mr MacKenzie: Just to add to that, generation represents about 70% of the cost of electricity in this province, and when we reviewed the system we felt that the largest potential for reduction in costs was in the area where costs are greatest—in other words, generation. Our reform model focuses on introducing competition into the generation sector because we feel that is where the greatest cost reductions and the greatest reduction rates can be achieved most quickly. Not to say there are not efficiencies in all other parts of the system, but that is where you are going to receive the greatest impact on rates.

Mr Silipo: Are there two or three main factors that would lead to the greatest potential for a cost reduction there, if there was competition or if there was privatization?

Mr MacKenzie: I think you can have, and I expect you will have, competition between publicly owned, independently governed generating companies, along with privately owned, investor-owned generating companies all competing to supply the grid.

Mr Wettlaufer: Thank you, Elvin and Jim, for coming up here today. I appreciate your submission. The minister is looking for some concrete suggestions in so far as reducing costs and I particularly address my remarks to page 3. I won't get into the issue of privatization. I know some of the others in my caucus might want to.

You say on page 3, "What good is a reduction in personal income taxes, if that reduction is eaten up by higher rates for services such as electricity?" Then halfway down the page you talk about the debt guarantee and water rental cost in the amount of \$284 million and that removal of those charges would equate to a 3% immediate reduction in the cost of electricity to the business and residential customers. Of course, if we went along with that, that would mean taking \$284 million out of government revenue, which means that we would have to reduce our costs that much more.

I am putting words in your mouth, maybe, but I would like to know whether or not you would support reducing our costs by that much more, as a government.

Mr MacKenzie: I think we're here to present to you our views on how we can reduce electricity rates in the province, and how a reduction in electricity rates would help to stimulate small and medium business. We think that in terms of job creation, most job creation is through small and medium-size business. Frankly, we believe that a reduction in electricity rates will help to stimulate small and medium-size business activity in this province, help to generate jobs. That may—I'm not an economist so I can't tell you—help to offset any reduction you might have in the provincial treasury in terms of the water rental and the debt guarantee. I don't know; we haven't studied that.

Mr Wettlaufer: So what you're saying is, it would be very similar to the reduction in personal income taxes, that there would be a regeneration of the economy.

Mr MacKenzie: I don't believe I can comment on the impact of personal income taxes because, again, I haven't studied that, and that's not an issue specifically for our association in terms of what we're trying to present to the committee.

Mr Martin: If I may, I think there could be another factor here as well, and that is if the electricity system as it now exists were unbundled and we did with Ontario Hydro what we're proposing in our model, that may also eliminate the need for that debt guarantee.

Mr Steve Gilchrist (Scarborough East): Gentlemen, I'd just like to pick up on one comment you made in your submission here, namely the privatization of the generation side. Unlike some members opposite, I do believe there will be the opportunity for public debate on the whole subject of the potential privatization of all or part of the hydro service in this province.

One item that I'm sure will come to the fore will be the old chestnuts about the concerns we should all have on the nuclear side. In your submission you suggest that the three aspects—the hydro-electric, the coal and the nuclear—be broken into different generating companies.

Do you share the concerns held in some quarters that we should in any way be concerned about privatized nuclear generation in this province?

Mr MacKenzie: I think experience in the United Kingdom might suggest that the private sector would be unwilling to take on all of the downstream liabilities that might be associated with nuclear. I think that's one of the reasons that in England and Wales the government and the electricity authority did have trouble trying to privatize nuclear, was the downstream liability. I understand that that's now an issue again in England in terms of the government looking at that again but, based on what I've read, I would assume that very few private sector investors would want to take on the decommissioning costs and the potential environmental liability costs downstream, so I suspect that that's why it would remain in public hands.

Mr Gilchrist: If I were to tell you that there are already companies approaching the government with a view to purchasing the nuclear assets if they were to ever become available—so, clearly in their minds, they have determined that the risk-reward ratio works out in favour of private investment—from a practical or a safety or a technical viewpoint, would you have any concerns?

Mr MacKenzie: Provided we have appropriate licensing through the Atomic Energy Control Board and all of those safety procedures are in place, no, but I would want to know from any private sector group that was looking at that how they want to handle downstream decommissioning and potential environmental liabilities because I think that's one of the keys to all of the nuclear industry.

The Chair: Thank you very much, gentlemen, for joining us today. We appreciate your submission.

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ALLIANCE OF SENIORS TO PROTECT CANADA'S SOCIAL PROGRAMS

The Chair: Our next group is the Alliance of Seniors to Protect Canada's Social Programs. Mr Buller.

Mr James Buller: In addition to the submission, I've included one set of documents for each political party. This is an alternative federal budget put out by the Canadian Centre for Policy Alternatives and a working paper that goes with it. I think it has some relation to the events in Ontario. Also, dealing with the unemployment insurance issue, I have the little red book—and it doesn't only deal with the federal Liberals; it also deals with the federal Conservatives and the cuts made to unemployment insurance and the impact—as well as a front-page analysis on the last federal budget and its harmful effect on dragging down the Canadian economy.

The Alliance of Seniors to Protect Canada's Social Programs is an advocacy body working closely with the Ontario Coalition of Senior Citizens' Organizations and the United Senior Citizens of Ontario, which represent more than half a million seniors throughout Ontario.

Seniors are especially concerned with policies of governments which adopt reduced block funding transfers of funding to the provinces, thus creating funding problems for local government and a reduction of services.

This occurs when the provinces have reduced block funding for the municipalities.

The downgrading of available medical services, prospects of hospital closures, user fees for prescriptions affecting seniors and the needy, and cutbacks in public transit in many communities are viewed as attacks on seniors and ordinary Ontarians. Many are growing increasingly angry.

Canada and Ontario are in the grips of a worsening economic depression. The current policies of this government will weaken the economy, which needs stimulation rather than downsizing in order to create much-needed jobs. These in turn would generate income tax revenue and promote consumer spending, thereby reducing the deficit.

There is an alternative to the proposed 30% tax cut which would mainly benefit the wealthy. The affluent have already received personal income tax cuts of as much as 53% from the federal government, which has reduced the number of tax categories from 17 down to three in a number of steps, shifting the tax burden to the lowest-income taxpayers. Therefore, the tax cut idea should be scrapped forthwith as it will enormously increase the provincial debt, with the province having to borrow in order to pay for this tax break which they, the wealthy, have already received from Ottawa. This will save the provincial treasury billions of dollars and enable the province to initiate job creation measures.

Some 21% of profitable corporations, many based in Ontario, pay no corporate income tax. The remaining profitable corporations pay as little as 1% or 2%, according to the Globe and Mail Report on Business. A minimum provincial corporate tax of at least 10% would help generate the needed revenue to deal with the provincial deficit while enabling the provincial Treasurer the opportunity to reconsider the drastic cuts in transfer payments to the municipalities.

The ideological reasoning on the causes of the deficit are flawed and erroneous. The Canadian Centre for Policy Alternatives has published an invaluable booklet entitled 10 Deficit Myths: The Truth About Government Debts and Why They Don't Justify Cutbacks. In summary, it states:

Myth 1: The overriding objective of government must be to eliminate the deficit. Fact: The irony is that those who say this favour policies that will increase the debt.

Myth 2: Governments waste and go into debt, funding programs that are either unnecessary or should be privatized. The fact: Note that even when a government is forced to borrow and go into debt to maintain essential services, this should be considered a wise investment, as is the borrowing by a company to modernize its plant or equipment.

Myth 3: The government shouldn't run high deficits any more than the average Canadian should keep running up his or her credit card spending. The fact: A drop in government program spending of \$1 billion leads to a loss of between 20,000 to 30,000 jobs elsewhere in the economy.

Myth 4: As a result of massive government overspending in the past, we can no longer afford the generous social programs. The fact: In 1994 and 1995, for exam-

ple, the federal government collected \$123.9 billion in revenue, while spending \$119.1 billion on services and programs, leaving an operating surplus of \$4.6 billion.

Myth 5: Without drastic cuts in government spending to reduce the deficit, we risk hitting the debt wall. Fact: The chief culprit is the Bank of Canada and its high interest rate policy, which forces governments to run up deficits because of the effects of compounding interest.

Myth 6: The deficit causes recessions, high interest rates and high unemployment. The fact: The truth is the exact opposite. The deficit is caused by recessions, high unemployment and high interest rates.

Myth 7: The deficit can't be reduced by lowering rates. Fact: The exact opposite is true. During and after the Second World War, the Bank of Canada provided low-interest—1% and 2%—loans to the federal government which virtually eliminated the federal debt. The province can also help repatriate the provincial debt by offering Ontario debt reduction bonds to the public regularly, rather than dealing with foreign money speculators.

Myth 8: The deficit can't be reduced by raising taxes, because the tax burden is already too high. Fact: Canada has the lowest percentage of corporate tax contributions of any G-7 country, including the UK and the USA.

Myth 9: Canada's foreign debt limits our options and puts us at the mercy of foreign money lenders. Fact: While 20% of federal debt is held by foreigners, virtually none of it is in foreign currency.

Finally, myth 10: The deficit can only be reduced by cutting government spending, not by creating more jobs and bringing down unemployment. The fact: Creating jobs would have more Ontarians earning salaries and paying taxes, thereby helping reduce the provincial debt. Note: the real rate of unemployment, when workforce dropouts, college graduates and part-timers are factored in, is closer to 16% unemployment, rather than the 9% we're told.

The following recommendations are designed to benefit Ontario:

(1) Provide full extended funding to all municipalities as in the past and do not institute regressive block funding cuts to the municipalities. The federal government example in the 1995 budget should be rejected. I've enclosed that front page from the CCPA Monitor, which analyses the federal budget.

(2) Inasmuch as more affluent Ontarians have had their personal income taxes reduced substantially, by as much as 53%, the proposed 30% tax cut should be scrapped, as it would substantially increase the provincial debt as the province would have to borrow to finance the tax cut.

(3) Scrap all drug user fees or copayments for seniors and the needy, and regulate, not deregulate, all drug prices. Incidentally, Ontario would be the only province in Canada to deregulate drug prices under Bill 26. Press the federal government to amend the patent drug act to end the 20-year monopoly for patent drug companies. Reduce the period of patent drug protection from 20 to five years. This concept has also been endorsed by the pharmacists' association.

(4) Enact legislation to create jobs by amending the Employment Standards Act to reduce the work week to 35 hours. Overtime permits should be sharply restricted

to all companies that have instituted layoffs until employees are recalled. See the recommendations in the Donner report submitted to the federal government and the provincial government. This was authored by Arthur Donner, the noted economist. Also, enact an Ontario infrastructure program to improve roads and bridges with long-lasting benefit to the province and an aid to kickstart the economy.

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I might add that this week on Monday, Premier Harris, in Davos, Switzerland, spoke up on the question of the long hours being worked and the work week. This is David Crane's article in Monday's Toronto Star:

"In fact, he said, the real concern seems to be that 'it's 60 hours or nothing.' And governments have to consider whether their policies affect this—do they discourage job sharing, do payroll costs and severance costs have an impact."

He also stated, "Harris said, he found 'real concern that...while technology allows people to produce twice as much, they're working 60 hours a week instead of 40.'"

This is exactly what I said when I appeared before the committee on Bill 26. I said exactly that when I pointed out that technological change and automation destroy jobs. We're actually losing more jobs than we're creating in this country. I'm glad that Premier Harris has endorsed this completely and I trust all the members on the government side will support our submission and amend the Employment Standards Act. Let's create some jobs in Ontario and reduce the hours of work.

(5) Abandon staff layoffs of provincial employees by offering voluntary early retirement with financial incentives. Do not contract out services performed by provincial employees to the private sector.

(6) Protect the pension funding of the OPSEU pension plan and comply with the letter and spirit of the court decision in support of OPSEU.

(7) Stop private medical laboratories from bleeding the health care system of \$400 million per year. Have the lab tests done by the hospitals at lower costs. I have a petition here endorsing that concept.

(8) Do not privatize Ontario Hydro or the LCBO. Look at the harmful Alberta liquor privatization experience, which resulted in higher prices and poorer selection. Also, consider the revenue the province gains from the LCBO.

(9) Adopt a fair tax system for Ontario. Inasmuch as most corporations pay little or no corporate income tax, we recommend a minimum corporate tax of at least 10% on profits. Press the federal government to have the Bank of Canada extend low-interest loans at 1% or 2% rates, as done during and after the Second World War, to reduce the provincial debt. I'd ask you to refer to William Krehm's book. It's a paperback entitled *A Power Unto Itself: The Bank of Canada*. It's published by Stoddart. It's still in print and it's a very valuable document as to the role the Bank of Canada can play to help reduce government debts.

(10) Restore all funding to the Toronto Transit Commission, as the drastic cuts in service are harming seniors and all residents without cars who rely on public transit—a vital, essential service. Do not privatize the TTC. The

TTC, despite a farer increase, still has a \$22-million shortfall.

(11) Due to higher food and shelter costs, restore the 21.6% cut in welfare payments. The cuts are proving very harmful. I might add that the Fraser Institute, which you've all heard of, a very reputable think tank, had an analysis, and this is contained in a document put out by the Social Planning Council of Metropolitan Toronto, talking about the new shelter ceilings. They do not even meet the shelter standards set by the Fraser Institute when it attempted to define the poverty line based on the notion of absolute poverty or the minimum necessary for bare subsistence. According to the method established by the Fraser Institute, a single person in Metropolitan Toronto requires \$465 per month for shelter, \$51 higher than the current maximum and \$140 higher than the new maximum. For a two-person household, the Fraser Institute standard calls for a shelter allowance of \$577 in Toronto, compared to the \$511 allowed for in the new shelter maximums. A two-parent, two-child family will receive only \$602 under the new ceilings, compared with \$841 called for by the Fraser Institute standards.

(13) We urge you to keep rent controls in place to prevent rent-gouging by developers and landlords.

(14) Education funding is essential if young Ontarians are to be adequately trained. The province pays nothing to the Metropolitan Toronto board of education, even though education is under provincial jurisdiction. We oppose a two-tier education system. Take education funding off the backs of the homeowners. It should be funded as part of the provincial income tax. I understand that in Ontario at Waterloo University they've had reductions of up to 300 staff because of funding problems.

(15) Exercise strict guarantees to all Ontarians for full medical and hospital services without making arbitrary exclusions as to what medical procedures might not be necessary, in opposition to a competent doctor's recommendation for the patient. Exercise extreme restraint on any hospital closures. With our present economy, people's health is already being undermined.

(16) Provide funding to care for the homeless, some of whom are freezing to death.

I'd be only too happy to answer any questions you might have of me.

One final word: I urge every member of the Legislature to get a copy of this booklet, *10 Deficit Myths*, because it has, in addition to what I've said, 10 recommendations at the back which will help any government greatly in dealing with the deficit in a rational manner. It can be obtained from the Canadian Centre for Policy Alternatives. I have their address, their phone number and their fax number. It's worthy of very careful study by every member of the Legislature and their staff. It's invaluable material.

If you have any questions, I'd be only too happy to attempt to answer them.

Mr Silipo: Thank you very much, Mr Buller, for your presentation. You've given us a lot of information and a number of useful materials, and I thank you for that.

I'll start with the first point that you make, coming out of the last booklet that you referred to from the Canadian

Centre for Policy Alternatives, the first myth that the overriding objective of the government must be to eliminate the deficit. We've had, and continue to have, a lot of discussion around this table about that issue. I think it's fair to say that my sense is that there is a fair level of agreement about the need to address the deficit. There is of course wide disagreement on what the government is doing.

I think the point that you're making here is something that even the government members seem to be reluctant to admit, which is that their own actions in favour are going to increase the debt. They seem to be oblivious or not wanting to pay much attention to that. The tax cut will add about \$20 billion to the debt.

When we tried to probe the Minister of Finance, both here and earlier on in the Legislature, about how it is that that tax cut, which is, as they say, their primary job creation scheme, is going to create the 750,000 jobs that they promise, I think it's fair to say the best answer we would manage to get from the Minister of Finance towards that objective was an acknowledgement that there wouldn't be much in the way of positive impact for the first couple of years. Down the line, yes, there might be, and we'll have to wait and see of course.

That is really one of the points I just wanted to stress and get your further comments on, that is, even with all of this pain that people are being asked to absorb, even with all the cuts that people are being asked to absorb, the government's own figures indicate that the level of unemployment next year is going to be about the same as it is this year, and even slightly worse the year after that. So we keep asking, where is it that the jobs are going to come from? I just want to put that to you and see if you have any further comments on that important issue.

Mr Buller: Your point is correct. The Conference Board of Canada has predicted a bleak economic future this year and next year without some efforts to stimulate the economy. We are in touch with the federal government on this almost on a day-to-day basis as well, because they have responsibility. I've spoken to a number of members of Parliament as recently as today and we're very concerned at what the federal Finance minister is liable to come up with early in March.

I might add that when we lobbied the federal Liberal caucus in Toronto last February, when they had their meeting at the Howard Johnson hotel, we presented all the Liberal MPs with an alternative budget, prepared by the Social Planning Council of Metropolitan Toronto, which would have reduced the deficit and the debt by more than Mr Martin's figures without cutting social programs.

It was a balanced proposal. I personally handed it to Mr Martin—he had already seen it, but I thought I would hand it to him in front of the TV cameras—and I said, "Mr Martin, we're prepared to meet with you any time while you're in Toronto, day or night, at your convenience, to explain it—to reason with you." He said, "I'll send down my appointments secretary." She did come down, and we weren't able to get the meeting we had hoped for, even though we were ready to meet at 7 o'clock in the morning. But he did send an emissary to Toronto, whom we did meet with.

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We feel that both the federal and provincial governments can do a great deal to deal with the deficit and the debt in a rational manner. I pointed out the role of the Bank of Canada. It can play a tremendous role in reducing the provincial debt and the federal debt. They've done it before. The fact of the matter is that the Bank of Canada, which is an adjunct of the government of Canada, although the governor, Mr Thiessen, meets with Mr Martin regularly, Mr Martin has not used enough clout in having them lower interest rates further. Actually, the dollar didn't drop very much when they lowered rates recently; it stabilized quite well. They could lower interest rates further. This would help the provincial governments and federal government enormously. It can be done; it has been done before.

I think the social programs are the fabric which holds Canada together. Why would the people of Quebec, where you have massive unemployment, be particularly enamoured with federalism when their UI benefits are cut? You saw the television coverage of the events in New Brunswick and Cape Breton and what's going on in Newfoundland now. In my representation to the federal government, and some of the ideas are contained in this little red book, by cutting UI benefits, making it more difficult to get benefits, a longer waiting period, a shorter benefit period, less money, you have a situation where people have to go on social assistance earlier, which is a burden on the province and the municipalities. So we have an interrelationship here, and I think a lot could be done to improve the situation.

Mr Gilchrist: Mr Buller, I certainly appreciate that these are convictions that you firmly hold. However, as I look at your final two pages, an appropriate heading might be to scrap all announcements that our government has made since June and return to the status quo prior to June 8. At the same time, I believe you have a number of factual errors in here concerning the highest marginal tax rate is still 54% and if that had been reduced—

Mr Buller: That's not what I said.

Mr Gilchrist: If the highest marginal tax rate is still 54% and they, presumably as the wealthiest, have been reduced by 53%, that would mean the original tax rate was 107%, and I don't think any government in this country has ever gotten that high.

Let me just ask you, very simply: If you don't agree with everything that the government has announced, if you don't agree with the changes that we're proposing, our vision, the vision supported by the majority of people in this province, then I guess you're telling us you agree with the status quo that left one out of eight people in this province on government assistance, that left more seniors and children on welfare than the entire welfare population in 1985, that saw food banks proliferate across this province over the last 10 years, when you couldn't even name one in Scarborough, where my riding is, 10 years ago—are you telling us that you are satisfied with the status quo that existed June 8 and there's no need for change?

Mr Buller: Absolutely not. I have always been an advocate for change, and I still am today. I don't disagree with all the measures of the provincial government—

Mr Gilchrist: It's a pretty comprehensive list.

Mr Buller:—just a minute—for instance, suspending a driver's licence if he's convicted of drunk driving. I support things like that. I support Premier Harris's views on shortening the workweek and eliminating excessive overtime—I agree with the Premier of Ontario on that—to kick-start the economy. I also agree with the conservative Fraser Institute, with their figures on welfare.

I was just in touch with a federal MP today who told me that child poverty in the greater Toronto area is now at epidemic proportions. This is Dennis Mills, very concerned about it. I said to him, "Your government in Ottawa can help to reduce child poverty." The House of Commons unanimously adopted a resolution to reduce child poverty, but it's going up, it's not going down.

So we're proposing changes. I don't reject everything the government is doing. I understand that they're going to have to have a look at hospital funding, as to what hospitals are operating below capacity. I realize changes might have to be made in that area. We're not taking a hard line of rejecting everything the government is proposing.

I've dealt with Conservative governments in Ontario in the past. I led delegations to Dr Robert Elgie when he was the provincial Labour minister, and I should tell you that he would listen. He said, "If this is doable, if it's logical, if it makes sense, we'll adopt it," and he did. But your government has amended and abolished things in the labour act that were in effect by previous Conservative governments.

I am open to change. I am open to acknowledge every positive, progressive move this government makes, when it makes it. I'll give you full marks. So I wouldn't suggest you put words in my mouth.

Mr Phillips: I really appreciate your thoughtful brief. You're an individual who probably spends more time thinking about issues in Ontario than almost anybody, and the brief reflects it. So from our caucus, the Liberal caucus view, we appreciate your coming here. I don't view this as a "bashing the government" brief but rather trying to be constructive.

I was interested in the Premier announcing that he plans to have something on hours of work, and maybe the government will want to put something like that in the report. I was interested in the Fraser Institute's numbers around shelter. Both those were very helpful to us.

My question, though, is on the drug user fees. I think many of us were surprised that after the election the government was introducing user fees on drugs, when before the election I think most of us took at face value the Conservative platform. Is your organization concerned—I see you scrapped the drug user fees—about the drug user fees that they're planning to bring in in the next few months?

Mr Buller: I have the chairman of our alliance here. Mr Al Gorlick is a pharmacist. You might like to hear his response to your question.

Mr Phillips: That would be very good. An expert witness; another expert witness.

Mr Alex Gorlick: Well, I wouldn't call myself an expert. However, traditionally pharmacy has been against the user fee because it has been proven in many other

jurisdictions that the user fee does not cut down on the abuse of the system by people who are in the system, and that is those who are senior citizens and people who are on supplementary income. The user fee will disadvantage the poor enormously.

You cannot control the abuses in any system by a \$2 user fee, which is what we're talking about, because what will happen, ladies and gentlemen, is that at some point in time down the road the user fee will be absorbed by the discount pharmacy and by the other pharmacies which want to be fiercely competitive. The client, the recipient of the medicine, will not be paying that fee at some point in time. I'm not talking from day one, but competition being what it is, it will force itself down to the lowest level, the lowest unsustainable level, by the way.

What the government has tried to do, and that is to reduce the prescriptions being dispensed—because that's the only function of the fee; it can't have any other function, because as a revenue raiser it's insignificant—what good will it do?

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There is something else as well. Our alliance firmly believes that the hard work that has to be done to reduce the cost to the taxpayer has not been done. We have people who abuse welfare. Get after the welfare abuser. Don't penalize the decent person who needs the money. There are prescription abusers. Get after the prescription abusers. Get rid of them. Find them out, search them out. That's hard work, but that's where the abuse is and that's where you can cut down on the expenses.

There are many things that can be done by an honest government that sincerely wants to do a good job. Get rid of the cheaters. You'll be saving millions of dollars, far more than the pennies you're going to save or raise by this mean-spirited \$2 fee and \$100 deduction and all that garbage, which will not get rid of the abusers because they're going to work the system every time. If we get rid of the abuses in the system—in the hospitals, in the doctors, in the dispensaries—we're going to come out laughing. Don't use penalties of this nature which won't accomplish anything.

The Chair: I'd like to thank you both from the Alliance of Seniors to Protect Canada's Social Programs for your presentation today.

ADVOCACY RESOURCE CENTRE FOR THE HANDICAPPED

The Vice-Chair (Mr Tim Hudak): Our next group is the Advocacy Resource Centre for the Handicapped. Good afternoon and welcome.

Mr Ron McInnes: My name is Ron McInnes. I'm the president of the board of ARCH. Giselle Cole is on the board of directors of ARCH, and Harry Beatty is a lawyer on staff with ARCH.

As many members are aware, ARCH is a legal centre that's been serving persons with disabilities in Ontario since 1980. ARCH is accountable to disabled persons through 54 disability organizations that are represented on its board of directors. We've appended a list of those member organizations to the back of our brief if you want to look at it.

ARCH is a legal aid clinic, and as such it provides poverty law services in the service of its community, and that community is disabled persons. We've also appended a list of some of ARCH's accomplishments to the back of the brief, if you're not familiar with our organization already.

We're here today to submit a brief that we hope will lead to a deeper understanding of the role government plays in the lives of persons with disability and some thoughts that we feel are necessary to be kept in mind as we go through the budget process.

We're centring our comments today around what we're calling the "disability explosion" in an aging population. If you go back to 1986, you find out that persons with disabilities represented 15% of the population. This is according to the Health and Activity Limitation Survey of Statistics Canada. By 1991, that had grown to 17%. One of the major reasons for that growth and why we say the rate will continue to increase into the next century is the aging of the population.

I think most people are aware that there was a baby boom following the war and that it's a bulge that is working its way through the system and is now getting up to the point where it's getting into the seniors' area. We've noted that this bulge has had major implications for pension plans, for the Canada pension plan and many others.

We're not certain it's well understood that this bulge is also affecting demand for disability programs and will continue to do so in the future. There are wellness programs and preventive medicine, things that have enhanced the health expectations of seniors, but the fact remains that the incidence of disability increases drastically with age.

It's not just an issue for seniors; it's already having an impact on programs for working-age persons with disabilities because as we get more people into the area where they need the disability programs, it's going to affect everyone in that, not just the seniors.

We have a few figures that show that between 1993 and 2015 the youth population will increase only 5% whereas of the older age groups, 45 to 54 will increase 115% and 55 to 64 will grow 194%, and the incidence of disability is five times greater among those in the 55 to 64 age group than among the younger people. It's not difficult to see how the aging boomers are going to increase that demand for disability programs.

We have a couple of graphs that had been prepared by Cam Crawford of the G. Allan Roher Institute appended to our brief to illustrate the point, but I think most people are probably familiar with the concept. These again are figures taken from the HALS, and he has indicated that the picture in Ontario is not likely to be different than in Canada as a whole. His projections show that the number of low-income disabled seniors and seniors requiring at least some community services will double in the next 25 years and approach three times the current level in the next 40 years. The rapid increase in this group is starting now. There are significant increases for the under-65 disability group, but they're not as dramatic as yet as they will be for the over-65s.

We'd just like to run through a couple of examples. I'll deal with one, Ms Cole will then refer to a couple of others and Harry will give a few suggestions as to what action might be taken.

I want to look at public transit. Public transit is usually in this province inaccessible to persons with disabilities, either because they're unable to get to the bus stop or they're unable to mount the steps into the bus or the streetcar, whatever it is, so we have parallel transit systems in many municipalities. We have Wheel-Trans in Toronto, the one that's of course most widely known and widely reported in the press.

According to the data provided by the TTC, the demand for Wheel-Trans has increased 87% over the past seven years and they project it will increase 41% in the next four years. Projections based on Statistics Canada figures suggest that the demand from 1995 to 2025 will increase a total of 89%.

In his July financial statement, the Treasurer imposed a 6.2% cut and committed in his November statement that the remaining provincial fund levels be maintained for two years. Notwithstanding this commitment, the Toronto Transit Commission recently proposed new eligibility criteria which would remove 50% of the current riders from that system, basically all those who are non-ambulatory, those who are not in wheelchairs.

These people who are being cut off are still unable to use the conventional system. They'll be in danger of being institutionalized, of losing their jobs, of having their health care discontinued. All of these outcomes clearly relate to increased demands that are going to come on that system and generally on Ontario's health and social services system.

There are other things I know under discussion, but any of these things are just going to move the costs from one area to another.

1510

Ms Giselle Cole: It is important to note that living with a disability is a very expensive, tiring process, and when you're dealing with an aging population, it is often forgotten that those who are already disabled or living with a disability are aging just as rapidly and oftentimes more rapidly than the general population.

One of the things that has always been very important in terms of maintaining an independent lifestyle, or as independent a lifestyle as one can achieve is long-term care and self-directed attendant care. In 1984 the Canadian Medical Association released a report entitled *Health: A need for Redirection* written by a task force on the allocation of health care resources.

The task force retained the services of a consulting firm to consider the impact of demographic changes on the demand for long-term-care facilities and at-home services. The assumption was made that all the eligibility criteria would remain static and, therefore, their projection was that increased demand between 1981 and the year 2021 for long-term-care facilities would increase by 110% and home-care services would increase by 121%. Canada's population as a whole is expected to increase by approximately 55% over the same time period. We can see that to maintain independence and to look towards the quality of life, this is something that is of great importance to many people with disabilities.

Another example of some of the things that are concerning people with disabilities are the income programs. While it's often difficult to make comparisons, it is possible that Canada has the highest unemployment rates among its disabled people of any industrialized nation. Assuming Canadians are not becoming disabled at an exceptional rate, it is reasonable to assume that our high levels of dependency on disability income programs is a direct result of our high rate of unemployment among this group.

Why the rate is so high can be revisited at another time, but at this point it only needs to be said that the rate of unemployment and the degree of unemployability is directly related to the costs of disability income programs. For example, the Canada-Quebec pension plan disability has paid out pensions to twice as many 55- to 65-year-olds as was the case 10 years ago. A recent study by Human Resources Development Canada officials has revealed that the startling percentage of over 17% of Canadian men outside of Quebec between 60 and 64 are CPP disability pensioners.

As the baby-boomers now enter this age range, the projections are that the demands on the system will continue to increase. The same is true of family benefits, Gains-D, workers' compensation, private long-term disability insurance and auto insurance. The demands on these programs will increase unless ways can be found to support an increasing number of persons to the workforce. Another alternative is to slash benefit levels, but this would punish innocent people who are genuinely unable to work due to their disability and simply because of a demographic bulge that is making fair treatment for them almost unavailable and expensive.

Persons with disabilities have been trying to draw the government's attention to this impending crisis, and to possible potential solutions, for decades.

They have sought to have barriers to their full participation removed. In the area of employment, the government repealed the Employment Equity Act one day before the federal government gave royal assent to the federal Employment Equity Act, which was virtually identical to the Ontario statute. Most other competitive industrial nations have a comprehensive legislated approach to the employment of persons with disabilities, including the Americans with Disabilities Act in the United States.

The oldest barrier removal legislation in Ontario is the Ontario Building Code. Since the mid-1970s, it has required that new buildings be made accessible in a manner which imposes minimal costs on the builder and the owner. In a discussion paper entitled *Back to Basics* released recently by the Minister of Municipal Affairs and Housing, it is stated that accessibility was not a core goal of the code. That frightens me, actually. The consultation paper states:

"[The suggested principle above] would lead to the increased scrutiny of [the access provisions], where it is found they go beyond the main focus of health and safety. If this principle were adopted, existing provisions in these areas would possibly be reduced or eliminated."

Many concerned people with disabilities and their families have been calling anyone who will listen to inform them of the consequences of this proposal.

During the election campaign, this government made election promises, including the legislated barrier removal through passage of an Ontarians with Disabilities Act. To date, the ODA committee has not seen any action on this proposal. If no steps are taken to ensure barrier removal in Ontario, the result will be continued dependency of those who should be working.

Mr Harry Beatty: I'm going to mention briefly three tax credits or claims that are of importance to the disability community, recognizing of course that the cooperation of the federal government and the other provincial governments would be required to make significant changes.

First, there's the area of the tax relief provided to businesses and employers who make accessibility improvements. A few years ago, around 1992, the Income Tax Act was amended to provide that these accessibility improvements could be written off in one year. While that is some tax relief, we believe that more could be done in this area as an effective way of promoting the cost-sharing of barrier removal between governments and businesses without getting into the administrative cost or the inevitable delays of a new administrative program.

A second credit of importance is the medical expense credit. The medical expense credit has likewise been improved over the past decade to include more disability-related and health-related expenses. The problem is that the amount of the credit is inadequate in those cases where the disabled taxpayer or a taxpayer with a disabled dependant is paying big costs related to disability out of his or her own pocket, such as a major home renovation, a modified van, or attendant or nursing care. In these cases where the disability-related costs to the individual are in the thousands of dollars, and obviously we're talking about people who have some financial resources to pay it, because of the way the system works, the value of the credit is often only in the range of 10% to 20% of the person's total expenditure. An improvement would help people who are trying to be independent but are unavoidably, because of the nature of their disability, faced with very high costs.

The third item, and I think the one that I'm hearing the most about now from disability organizations, individuals and their families, is the disability tax credit. Again it's a federal issue, but there is no doubt that the federal administration has very much restricted eligibility for this credit. Cases brought to our attention have included denials of claims for people with cystic fibrosis, cerebral palsy, thalidomide victims and many others.

I haven't seen the 1995 credit form. In 1993 the tax credit form said that for a mobility impairment, the person was ineligible if he or she could go 100 metres on level ground, even with crutches or braces or a walker, and in 1994 the federal officials reduced the test to 50 metres. I'm a little bit nervous about what we'll see this year.

1520

So people with a very, very significant mobility impairment are being denied the credit. It's obvious that our whole world isn't level and that 50 metres isn't very far, especially since there's no test as to how fast. Basically, people who I think would be regarded on any

fair test as being severely disabled are being denied this credit, physicians are being placed in a very difficult position with respect to certification, and while we recognize that this is federally administered, as a partner in the income tax system we would request the provincial government to raise the issue with the federal departments of Finance and National Revenue.

Mrs Marland: Nice to see you, Mr McInnes. You and I have worked together for very many years with a common cause and I'm pleased that you are here today informing us of your concerns that I know are ongoing, and certainly your points about the aging population are very significant.

I wanted to say to you, when you were talking about Wheel-Trans and the decision of TTC initially not to take the \$7 million that we gave them for Wheel-Trans but to put it into their general revenue and affect the Wheel-Trans program, that you know we were tremendously concerned as a government that they played that little game with us. The new eligibility criteria I think can work to the advantage of our disabled community as long as we put in the alternative transit such as the low floor entry for the buses and the disabled taxis, because both of those programs are working in some parts of our province, as you know, Ron, very successfully.

I wanted to ask you what you would suggest we can do with doing things differently in terms of specific funding programs. You have generalized about where the needs are, and they're the same needs that have been ongoing; they haven't just started on June 8. So where would you suggest we make cuts? Mr Beatty was here yesterday with another group, and we can't be in a position where we take from one group and give to another, so we need your advice about how to cope in order that we do have money for programs that are needed in the future.

Mr McInnes: I can't point to a program that can be cut. I think the basic point we wanted to make today is that in the budget process, you've got to look at the increasing needs in all of these areas, that by rights, if we were to maintain the status quo, there should be increases rather than cuts. By maintaining even present funding there are going to be decreases in services because of the increased demand; I think that's the basic point. We can't point to any area where we could really say there's something here that can be cut, and it's something that's going to be ongoing over the next few years.

The other side of that is that if some of these people, by reasons of cuts or staying at the same level in these areas, become unemployed or require institutionalization, there are just going to be expenses transferred to another area of government expenditure.

Ms Castrilli: Mr McInnes and Ms Cole, let me first congratulate you on having Mr Beatty on staff, who in my short experience of the Legislature appears to be the most hardworking Ontarian. He's appeared before so many legislative committees with groups.

Mr Phillips: How much did you pay her for that?

Ms Castrilli: I know what voluntarism is about.

I want to ask a slightly different question. You're a legal clinic and I notice from your appendix B that there are just a host of members that you've helped, many of

whom would not be able to get legal assistance without the existence of ARCH. I wonder if you might comment on the state of legal aid in particular, because that's an area that's being cut, that the government is looking at cutting, perhaps. Could you comment on that aspect?

Mr McInnes: I think that is something that ARCH is very concerned about at this point. At this point there have been no specific announcements of cuts to the clinics, but the magnitude of cuts to legal aid certainly makes us fearful that there are going to be some cuts to the clinics. Being a specialty clinic for persons with disability, as opposed to strictly a general community poverty law walk-in operation, we wonder if that might be an area that gets singled out. If so, it would certainly be to the detriment of disabled persons and would eliminate all the things that we have set out in our list of accomplishments. So it is certainly a great concern to us.

I thought when you were commenting on Harry's work that perhaps we could arrange for an increase in our budget so we can give Harry a much-needed raise.

Ms Castrilli: Try and take it up with the government.

Mr Phillips: You've got our approval. I appreciate the comment on the building code, by the way. It's the first time I'd heard it, I think. Yesterday the home builders were in, kind of rubbing their hands in glee at the changes coming up, because they view it as being able to reduce their costs. I think it's certainly a caution for us, and hopefully we can get something in our report on it.

My question is on the transit thing. I think the government has a dilemma that transit is theoretically a municipal service, partially funded by the province, but they really tend to have responsibility for doing it. Is there something more the province should be doing to set provincial standards for it, or should it be left to the local municipalities to handle this?

Mr McInnes: I think there should be some provincial minimum standards. I've been involved with parallel transit since the days when I was chairman of the Ontario advisory council on disabilities, and we came out with a report in this area in I think 1983.

Certainly the needs vary in different parts of the province. The same system that's useful for Toronto and needed in Toronto is not feasible in a small rural centre. But certainly some minimum provincial standards, some eligibility guidelines that are realistic but applied across the board, and some reciprocal usage arrangements are things the provincial government could well be doing.

Mr Silipo: I certainly would concur with the comments made around Mr Beatty's contribution, having dealt with him in my previous life on many occasions.

I actually would be interested in pursuing one point in particular, given the shortness of time, and that is what happens as a result of the government's repeal of the Employment Equity Act. We had, as has been mentioned, another organization yesterday that talked to us about this. Rather than going back over that—although I'd welcome any comments that you have about what that is going to mean for people with disabilities, not having that legislative protection there. But more importantly, because I don't think there were many comments in your brief about what the government's actions after that in terms of some of the guidelines they are looking at or

have issued would do around questions of accessibility to employment, is your sense that there are any significant actions that the government has taken there? They look to me to be pretty tiny measures by comparison with what was in the Employment Equity Act, but obviously I look at it from a particular perspective from where I sit. I'd appreciate very much your thoughts on that.

1530

Ms Cole: In terms of repealing the act, the question of accessibility and the question of accommodation within the workplace is greatly, shall we say, hindered, because if you are disabled and you are capable of work, it may not require millions of dollars to accommodate your disability within the workplace, it may only cost \$500 or \$600. But an employer will no longer be interested in providing that minimum accommodation because it will be cheaper for him or her in the long run to look to someone else without a disability. And you may be as qualified or more qualified.

For instance, at my workplace it's taken me 10 years but I finally got them to understand that the setup they have for everyone else is not going to work for me. As a result, it's cost them \$550 to accommodate me, and in the long run it's cheaper for them because I'm not off sick, because I haven't pulled a muscle trying to reach my mouse—simple things. As a result of repealing the act it makes it very difficult and the grounds for hiring and firing have almost been eliminated.

The Vice-Chair: Thank you very much, Mr McInnes, Ms Cole, Mr Beatty. Thank you for your time today before the standing committee. Have a good day.

Mrs Marland: On a point of order, Mr Chairman: I really don't think Mr Phillips intended to leave with the committee an inference that—he just said that the Ontario Home Builders' Association was in here yesterday rubbing their hands with glee about the amendments to the Ontario Building Code. Indeed, Gerry, that may have been what you interpreted, but I can assure you the Ontario home builders would not rub their hands with glee about amendments that changed accommodation for people with disabilities.

Mr Phillips: You've got to listen to what I said.

Mrs Marland: They are happy that there are amendments to the building code that deal with some of the outdated requirements of the code. The building code deals with safety primarily and accommodation of people with disabilities, and the changes and revisions to the building code that are coming do not affect those two areas.

Mr Phillips: Listen, if you want her to go on like this you've got to give me equal time.

Mr Silipo: Are you going to have a debate on that?

Mr Phillips: I want equal time.

Mrs Marland: You made the statement.

Mr Phillips: Yes. I made the statement that yesterday the Ontario builders were in here. They were extremely pleased with the changes that are coming forward on the building code. They made that statement. You check Hansard on it. I said that what we heard today was something I had not heard before, and that is that the people here from ARCH alerted us that there's a concern

around it. I'm just saying that yesterday the home builders said they were very pleased with it and now—

Interjection.

Mr Phillips: No, no. I won't be quiet because I don't appreciate Ms Marland—when she wants to make a point she seems to be able to talk on at length. I will say once again, if the government would come forward with some information that we keep requesting, this committee could function a lot better, instead of trying to misinterpret what I said today. I stand by what I said.

The Vice-Chair: Thank you, members of the committee. The Chair did not hear anything out of order. Is the Daily Bread Food Bank in the gallery? I understand our next delegation has not yet appeared. I'm going to recess the committee until 1555. If our next delegation does arrive shortly, the clerk will contact members in their offices.

The committee recessed from 1534 to 1539.

DAILY BREAD FOOD BANK

The Vice-Chair: I'd like to welcome Mr Gerard Kennedy from the Daily Bread Food Bank.

Mr Gerard Kennedy: Thank you very much. My apologies to members of the committee for having interrupted your schedule by being late. We much appreciate the chance to deputize here. The food bank actually has a bit of a tradition of appearing in front of the finance committee. The first time we were invited we thought maybe they'd gone to the wrong kind of bank by mistake, but we think there is validity in having an agency with our point of view.

1540

In brief, Daily Bread Food Bank is the largest food bank in Ontario and indeed in Canada. We operate completely without government funds. We raise approximately \$1.8 million from the private community and distribute about \$35 million worth of food on an annual basis. It gives us a vantage point through the churches and community centres that we supply, about 170 across the GTA, particularly in terms of some of the early decisions of the new government.

When we look at the basic disposition of things, we certainly have to bring to you first and foremost the outcome of the welfare cuts that were enacted October 1. In Toronto and the GTA we have had successive increases through the months of October and November. It was stable in December, and a further 8% increase in January brought us to a point where we're now serving about 157,000 people, an increase of some 51% from this time last year. We can attribute the majority of that increase to the changes in the way the social assistance benefits are paid out to individuals and families that are attending the food banks.

We have had record numbers of new people. We also have record numbers of people who have no income. I think the incidence of people with no income is particularly important given the reported drop in the welfare rolls that has taken place. We cannot tell you yet, because our survey instrument that we do on an occasional basis is only in the field this month, exactly the situation and disposition of those people, but anecdotally at least we're

hearing from people who are having a much more difficult time with the welfare system in recent months. I think that some of those figures have been reported before and perhaps you are aware.

I want to bring it to a different dimension, though, as you contemplate your advice to the Finance minister for the next budget, that you understand that those figures only represent the most obvious outcome in terms of what has happened. What I can't convey to you very well is the anxiety that people are feeling and how much more difficult that makes the role for the community. We have never seen the level of anxiety that we see among the people that we're attending to today. People feel, rightly or wrongly, that they've been punished for their inability to work, for the fact that they're unable, at this time at least, to be taxpayers.

I think what is worth reminding in terms of the decisions that are ahead for this committee is that 28% of the people that we're helping have some college or university education, that the average longest job of employable people is six and one-quarter years, so we're not talking about people who have been indolent or who have been dependent on the system for a long period of time. In fact, we're talking about people who have done, in many, many respects, exactly what we've asked them to do.

Unemployed employable people have been out of work for an average of now over 19 months and in that time they've made more than 220 job applications. That's a lot of times to be told no. The main point I'd like to make, in addition to the impact that we can bring you, as I say, only in a very large form in the sense that our detailed surveys won't be done until the end of March, is that there is already beginning to be signs that some of the cuts that were taking place—not only are they harmful to individuals in the sense that they have destabilized them, but they may well be costly to the government system.

While there have been people removed from the welfare rolls in the instance of working people—about 12,000, we understand, in the Metro area have been taken off the welfare rolls because they are working and therefore they're making too much against the lowered rates—there are also people who have simply had their lives destabilized in a way that will keep them on welfare for longer. We are certainly seeing this and I think we'll see it more manifest in the springtime in the number of evictions, the first time in the 10 years I've been working at the food bank that people are not paying their rent.

You have to understand the situation and circumstance of households that are trying to get by. It is very important to them to be able to keep a sense of identity, a distinction from the people who are much talked about who live outside. These, mainly families—I'll just iterate that 43% of the people we're helping are children and 70% of the food goes to families—are for the first time having to put their ability to keep shelter at risk, because in a 0.7% vacancy market like the GTA, they're running the risk now of being in arrears, of being evicted, of not having references for future accommodation.

What we're hearing about this winter in terms of dislocation of families in hotels, single people more numerous outside, and we can certainly attest to that, is

really only the tip of the iceberg. What we're seeing now already are some of the implications of what I have to say have been felt as arbitrary measures on the part of the new government. There is no understanding, for the people we're helping, of the relationship between the 22% cut and the cost of rent, which is 50% higher here than in other major metropolitan areas. If you take the average for apartments across Canada, the cost of rent in Toronto is 50% higher when you exclude Vancouver, and Vancouver is the only municipality that's even close.

I can give you a glimpse that the majority of the centres across Ontario are also reporting increases. There are only very small communities, whose reach is below 300 people, that have had less than 10% increases in terms of the demand at food banks, and very many of them, like our agencies, have had to do a proxy of what the government has done. In other words, they have to turn around and restrict food to the people they're helping. So the numbers you hear in future may not indeed reflect the demand that isn't being met.

I think you can appreciate just how likely that is when you look at the incidence of dollars that have been taken away from people on assistance—approximately \$1 billion. The value of all the efforts made by food banks and related programs in the province in total, in a year, is \$120 million. So in effect, when you talk about the role of the community, you're asking groups like ours to become seven or eight times larger to make up for what has been taken away, or, which is much more likely and it's important that you realize, that difference, those dollars are translated into some level of deprivation.

So families and individuals are going without, and I want to tell you that while we don't have the detailed surveys in, some 60% of the adults we deal with go hungry despite our help, and so do 32% of the children. I will tell you without any sense of shock or prevarication that those numbers will increase. So whatever else you take away from the presentation today, I have to make clear that there is going to be, there already has been, deprivation as a result of the welfare cuts.

I'm not really wanting to linger on that except in the sense to recognize, from our standpoint, the frustration that exists out there in the community on the part of the churches, the community centres, the social service agencies that are trying to help people stabilize, and then to have this sweeping measure take place and really undo a lot of the work that has happened. We're seeing people we haven't seen for three and four years, people who've been piecing their lives back together and are now having to attend food banks again.

The other thing we'd like to make sure reaches your attention, given the other measures the government has taken, is the impact of user fees. I think you need to understand that over 22% of the people we're helping are already having to pay for drugs, which used to be covered by government programs, out of their food money. It is one of the leading incidental causes for people to have to turn to food banks.

I know this is another jurisdiction, but it just gives you an idea of how close to the margin people are: 35% of the people we were helping before the welfare cuts do not have telephones. I want again to make clear that 34%

of the people we're helping have a disability or illness in terms of access to a doctor, 25% are single parents and 55%, including some in both of those groups, are people looking for work. We're finding that more and more of them are giving up phones, giving up even a remedial connection to society, stopping to use transportation. These are the kinds of things that underscore their instability and make the measures that have taken place not only doubtful in terms of what they're doing to people but what they're really going to accomplish for the province's finances.

While there may be some people who've been scared into doing different things, the things we see and the things we hear about are women working in things that they don't want to do. We hear about more women working in the sex trade. We hear about men doing jobs that are less than minimum wage. If we want to force people into options, then certainly that can happen, and there will be a reaction.

People are resilient, but I certainly want to express to you on behalf of a significant part of the charitable community that there is large and wide questioning of the kind of strategy that's been put into work right now. Even groups that don't consider themselves in any way political or interested in government policy see these measures as too extreme. I really want you to contemplate, arising from my presentation, what is likely to be the outcome if people are destabilized to the extent that they need to stay on welfare for months and months longer. I would say to you that our experience is that the first six months are critical, that having people stabilize during that time, having them be able to pull things together, be able to reorient themselves in terms of the job market, is really where a lot of the difference gets made. If we're not in a position to do that—and we are finding ourselves scrambling, such that we're not able to help people do that kind of thing because we're scrambling for food.

1550

There's been much talk about the role of the community. We've had a very generous response from the community. Our supplies are up about 30% but our demand, I remind you, is up 50%, so that gap has already opened up and we face the months of February and March with a very good prospect—we understand with dozens of other food banks across the province—of running very, very low on supplies, if not running out at some point. I think there's very little to be sanguine about on that point, but we are hopeful.

What you'll be hearing from the Ontario Association of Food Banks is some reconsideration of your decision to cut the welfare rates. The options, I think, are in terms of looking at a market basket, looking at pricing welfare rates by the cost in the communities where people are living, because there are huge differences between the cost of rent here and in other parts of Ontario. Quite a great deal of the savings the government is seeking could be had in that manner. But the arbitrary and sweeping way in which this is enacted is really putting a lot of people into the kind of harm that we just haven't seen before, and frankly, I will say, as one of the more

sophisticated charitable agencies, that we really don't know how to deal with.

What I would like to do is perhaps leave my remarks at those and invite any questions you have about the food bank perspective on some of the fiscal measures you have in front of you and the ones that have already been taken.

Mr Phillips: I'll kick it off. I appreciate your being here, Mr Kennedy. I think all of us admire the Daily Bread Food Bank and the work it's done over the years.

One of the challenges we face is that we've got really good measurement tools for a bunch of the old stuff, like hospital beds, the number of people in school, GDP and all those sorts of things; we have very poor measurements, I think, for the community of today, because there's so much community-based care and all those sorts of things. I'm not sure that we have a mechanism for measuring this as it goes along other than very crude measurements right now, such as your own, just saying, "Here's the demand on our operation." Have you any advice for us of how we can set up some tools to measure what's going on out there on a fairly accurate and regular basis?

Mr Kennedy: We are planning, from the standpoint of food banks, to institute surveys on an every-three-months basis to find that out in a detailed basis, because a lot of the data that I cited to you are from last year's survey. They represent a different group of people. We think it's very important that there be some way. We would ask the government, as we have asked previous governments, to consider some kind of joint effort in terms of understanding what is happening, because I think there's a responsibility there that we hope the government shares in terms of understanding what has occurred.

We are, for example, in a position to be in touch with a lot of the people who are experiencing the consequences of some of the decisions and we have a research capability that we're prepared to offer in terms of monitoring some of the outcomes. But I think we have to look first of all at—and this is the role of the government and of the other parties to really come to the question—what is the outcome we want to have? I think the outcome has got to be people on assistance for the shortest period of time, able to be self-reliant in the best manner possible. I think that's the outcome that is really, really in question because of the measures that were taken on October 1.

However, we find ourselves possessing more information about the status of people than sometimes the ministry does. I would say so far we've not had very much takeup in terms of the data that we have. We have not been able to get in to see anybody in the ministry to convey either our concerns or the data that we do have access to. After the end of March, we will have a very detailed assessment of what is happening and we would invite both the government and the opposition parties to collaborate in any way they would see fit to have access to that information.

Ms Castrilli: I want to thank you for coming here. I'm going to ask a question that may seem a little odd, because this is, I suppose, a question that one would normally ask an economic expert. I feel that as someone who is actively working in the field, who has to deal with people on a daily basis in the kinds of situations that you

do, you might still be able to provide some advice from that level.

The government has a platform which essentially says, "We are going to reduce taxes, and that will trickle further down into the economy and create jobs." You've seen some cycles, I'm sure in your line, of people who come to you as times are bad and then not again as times are good. What do you make of that premise? Could you foresee that kind of benefit for the people you deal with every day?

Mr Kennedy: Given what we've read about what it would take to be able to enact a tax cut, we're very hopeful that some reconsideration is under way on the government side. If you look at the multiplier effect of the dollar spent by poor people versus—I know the official tables haven't been produced, but I've seen calculations that suggest people over \$90,000 receive 32% of the benefit of any tax cut.

The multiplier for people with luxury purchases and with savings and with offshore investment is nowhere near what you'll get from the kinds of purchases that have been made by low-income people. I'm hoping that somewhere in that reconsideration this government, now that it has had time to become the government, will take the time to reassess the impact it's having on people and the impact this is going to have, even in the medium term, on its fiscal plan. I'm hoping that the tax cut, because it has varying appeal economically—I think it really does represent an opportunity for the government, as well as something of a moral signature, if you'll pardon my saying so. I think it is going to be very difficult for the average family out there to enjoy the extra benefit, to feel fine about the community that you want them to spend that money in, when things are so apparently tough for people on the bottom.

I would suggest that the question of security has moved beyond the people at food banks and on welfare into other people who don't know what's going to happen. They're looking at what's happening to people on welfare and it's affecting them. It would really be incumbent on the government to revisit that whole question with this particular impact in mind, because to think people would enjoy an economic benefit from the suffering that we see taking place is certainly something I hope the government is thinking about right now.

Mr Silipo: Mr Kennedy, I was interested in reading this morning in the media clippings that the Minister of Finance is blaming farm mongering by the opposition for the fact that the Tory government has dropped in opinion polls. One of the interesting comments he makes is that he thinks over the next three or four years a lot of the predictions that opposition members made in the House will not come to pass.

As I look at the effects you've listed for us, I see in fact a number of those things that we have been saying, whether it's been from the NDP or the Liberal opposition or the others outside of the politicians, that the cuts would hit the poorest citizens in our province hardest, that there would be people who would not be able to pay their rent, because if they had to choose between putting food on the table and paying their rent, they would inevitably start to make those hard choices to first put as

much food on the table as they could; the high level of anxiety at the fact that the charitable communities can't pick up the difference in the cuts. You're giving us pretty sound, and clearly, from the experience you have at the Daily Bread Food Bank, real advice on what is actually happening.

It's a bit of a rhetorical question, I know, but I would just ask you why the government and the ministry are not even bothering to talk to you about what actually is going on and what you see on a day-to-day basis, and presumably what other food banks across the province are also seeing, as you're indicating?

Mr Kennedy: I can't say the reason for that. The letter we received from the minister only suggests that it's not possible to—we have not had any explanation on those grounds. We're hoping that it has something to do with the government's determination to see its agenda happen. However, perhaps the public is thinking that it is time for the government to take stock of some of its early measures. I really hope that's how the government is receiving that information.

I'd just like to share with you some information we're going to be releasing publicly next week about the opinions of people in the GTA. It's a sample of people that is only slightly skewed. Where it's skewed is to the surrounding area, not so much centred on Metropolitan Toronto. So, 61% of the people don't blame people for being unemployed; 57% say it would be better if people received welfare payments which were based on the actual cost of living in their community; only 26% of the people believe that people wouldn't need food banks if they handled their money properly; only 25% similarly believe that people on welfare get enough money and don't need food banks.

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So I think it's very, very important for the government to distinguish between some of the anti-government sentiment that was out there and the way the public still expects this still-wealthy province to provide for marginalized people. I mean, there are 303,000 people in Metro alone affected by the cuts: 32,000 disabled people, 49,000 single parents, 130,000 children, before we get to the 90,000 employables who were presumably the target.

I think it's really, really important that the government, which is uniquely in the position to see who these people are—I mean, really, the average person walking around does not know—to be able to exercise that oversight and to review what is happening. I'm hopeful that is not a condition that will continue, for example, even throughout the winter, because what we're also finding, as a companion to the cuts, is an inflexibility on the part of government. Here in Metro, for example, they're sending letters to people. Even though at some point the Premier was quoted as saying you should depend on family and friends, across the province welfare departments are sending letters to people who are depending on family and friends and penalizing them for that.

In North Toronto, for example, that welfare office is saying to people, "If you're paying a high amount of money for your rent"—in other words, you've found some way to do that—"we're going to make you move within three months or we're going to take your welfare

away." Now, that's not even allowed by the regulations, but it's the kind of thing that if it's not what the government intends, then it really better come clear, because people are feeling a mean-mindedness. It's happening in the system. It's making it much, much harder for us to deal with the offices and the social workers and so on. It's a corollary of this sense that the government doesn't want to know what's happening. We really would like to believe differently.

Our offer doesn't stop with the letter that we sent; we made it here again today. We would welcome any members of the committee who would like to visit our food bank or any of the facilities. There are food banks in 174 communities across the province, and the increases are being experienced in places as varied as Havelock and Niagara Falls and Sudbury and so on. This is not a big-city item. Anywhere where jobs and cheap, affordable rent are hard to come by, people are finding themselves in that squeeze. I think it's important that there be some connection.

Mr Wettlaufer: Okay, we'll make this quick. I have a great deal of sympathy with you because my firm, in which I was a partner, contributed time and money to the food kitchen and the food banks in our area. I understand what you're going through. I understand what the people are going through who have to use your facilities. I want to compliment you. I notice that you have 20 paid employees and 1,700 volunteers. I think that's fabulous.

You mentioned user fees and how they're going to add to the deprivation. I want to make it clear to you that 140,000 additional people are going to be eligible to receive benefits under the Ontario drug benefit plan.

I think you're aware that the debt and the deficits which have grown in the last 10 years are greatly affecting our ability to provide for the underprivileged. In spite of the deficits of these preceding years, there was a lack of permanent jobs, jobs which we are trying to provide through our program. We're trying to get private industry to produce more permanent jobs.

I think what this committee is looking for, certainly what the minister is looking for, are some recommendations from the presenters, what their ideas would be to provide these permanent jobs, what alternatives you may have, what alternatives you have for cutting spending, because we must cut the spending. The spending has grown by 100% in 10 years. What suggestions would you have? We need them.

Mr Kennedy: In terms of cutting spending, the perspective, of course, that comes first to mind is the fact that social assistance is only 15% of the provincial budget. It was visited very harshly in relative terms and very early on in the mandate, so that over the life of the mandate social assistance will pay a disproportionate amount in a number of ways. However, of course, there is a fiscal consideration.

I think what we see missing is this, and certainly the people who are experiencing it see missing in this, is a sense of fairness. I think that had there been more time to input where the cuts were taking place, perhaps there would have been a better sense of sacrifice. What I see on the part of people like our donors—we get a lot of mail from people because we're so dependent on the

public—is that they get a sense that there's an arbitrariness out there now and they can't concede anything, they can't sacrifice for the greater good of something because they don't know when they're going to get hit. So there's a real missing dialogue step there that I think is going to make it much harder for the government in terms of saying, "Here are some other areas. We don't want kids to go hungry," which I assume is the objective of the government. I do assume that, but I have to say the kids are going hungry.

Somewhere there has to be a way of reconciling that, and I think the biggest problem here in terms of pointing out alternatives is that everyone now is feeling very, very defensive about hospitals, about education, about health care, because they feel as if it's happened to them. A downtown mission woman who has no political bones in her body calls it extremism, and that's how she's experiencing that. That makes it difficult for that dialogue.

In terms of suggestions, I think it would be important for the government, if it's having problems with workfare, to look at some other ways of doing that, maybe some private sector partnerships that bring in some private sector income, work in the third sector. Have some of the private sector actors that are active in things like food banks and so on create jobs for people, but jobs that pay minimum wage. People on welfare now receive \$3 an hour if they are a single person. They are 52% better off at minimum wage after taxes. They receive \$5.32 a month, per average, in these gold-plated benefits that people talk about, or an extra three cents an hour.

So there is no disincentive there. The question is how to give people a chance with some dignity to be able to get back in the job market. I think the difficulty is that as long there's not a dialogue taking place with the government, it's very hard to come forward with new, good ideas, because frankly I will say on the part of the community that I come from, people are quite shocked by the manner in which this is happening. I won't say that the well is poisoned, because there's a need to see people working with the government and trying to find ways to make things happen, but there is a real difficulty because of that. There's a sense that things aren't discussable and that it's a one-way kind of communication.

I know that's not a complete answer, but there are some ideas that may work, and the important thing, though, is that the government does express a real interest in those, because so far we would find the bulk of our advice that we put forward—and we did release a paper in September—there's not even a reaction to. I think we still have to try and do that in good faith, but it is difficult.

The Chair: Thank you very much, Mr Kennedy, for joining us today. We appreciate your presentation.

ONTARIO COALITION FOR BETTER CHILD CARE

The Chair: The next group is the Ontario Coalition for Better Child Care—Kerry McCuaig. Welcome to the committee. We have 30 minutes.

Ms Kerry McCuaig: With me today is Martha Friendly, who is a researcher with the child care resource

unit at the University of Toronto and a member of our council.

In the government's July 21 economic statement, it signalled its intention to review the province's early childhood education and care programs. Since that time, it has cancelled \$84 million in child care funding and, conservatively, threatens another \$200 million of the province's \$560-million child care budget. In addition, parents and educators fear the demise of Ontario's 25-year-old junior kindergarten program. Government spokespersons have been touted unregulated care as the arrangement of choice for the care of children.

Ms Ecker is heading up the review of child care with an aim of making it more affordable to parents and taxpayers, levelling the playing field between the profit and non-profit sectors, and offering more parental choice. These goals have caused considerable alarm among those with a concern for the education and care of young children. They are incompatible with the delivery of quality, accessible and publicly accountable programs.

We should note that no previous government has ever reduced funding for child care. Responding to changing workforce participation rates by parents with young children, growing child poverty rates and the overwhelming research which indicates the benefits of quality programs for children, each consecutive Ontario government has increased its funding commitment to child care. In the past 15 years, the provincial budget has increased from \$144 million to \$560 million in 1995, and each new investment has been aimed at enhancing the quality and accessibility of child care.

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Since July, your government has undertaken a number of steps to reduce government involvement in the provision of early childhood education services. They have included the cancellation of the early childhood education pilot projects; reduced funding to junior kindergarten; allowing boards to opt out of providing junior kindergarten; cancellation of the Jobs Ontario Training program; the reduction of the Jobs Ontario child care subsidies from 100% to 80%; cancellation of financial support to child care centres already built in new schools; cancellation of planned child care centres in new schools; a 5% cut to resource centres; elimination of the program development fund; cuts to programs which assist child care programs to integrate children with special needs; a review of wage grants and the elimination of pay equity, which have reduced child care salaries; and the cancellation of the conversion program for commercial child care.

The overall direction of these steps and the statements made by government ministers indicates a preference for privatizing care and education programs for young children, reducing regulations and monitoring, and undermining the quality of care children receive.

These government actions are having an impact. A survey of municipal children's services departments just completed by the coalition indicates that 4,743 of the original 14,000 Jobs Ontario child care subsidies have been lost to date, 19 child care programs have closed, 12 regions have frozen their subsidy intake and 12 community-based planning groups have lost their funding. Meanwhile, 30,000 eligible parents continue to wait for access to regulated, quality child care.

Ms Martha Friendly: I'm Martha Friendly. I work at the University of Toronto centre for urban and community studies and I'm on the council of the coalition.

I want to talk about how money is spent for child care. How money is spent for child care is crucial. For child care advocates, it has never been a question of simply more money but ensuring that money is spent in a manner that delivers high-quality programs and supports. This is important, because the research indicates that high-quality programs are a benefit to children, their families and to society. Poor-quality child care arrangements are damaging, even dangerous, for children. If public dollars are used efficiently, they should produce a comprehensive social program which supports parental employment, positive child development, income support for low-income families and a prevention program for children at risk. It should reduce the costs of other social programs and expand the economy by creating new jobs.

Now, you can think about this as better bang for your buck. Since you're a finance committee, let's talk in economic terms. If you want to produce the best bang for your buck, public funding must produce good-quality care and education programs. This isn't a mysterious formula. Extensive research shows that quality programs have high adult-child ratios, consistent caregivers, small group sizes, appropriately trained staff and adequate physical environment. Research shows that these results are most likely to be delivered where there's adequate public funding, good regulation and enforcement, parental involvement and non-profit delivery.

What this means is that a voucher given to a parent in a job training program or child care from a woman who has been coerced into providing care for children in order to sustain her welfare cheque while other parents are told to make do would bring false paper savings today but the ongoing costs will deliver overwhelming deficits.

I'm going to talk a little bit about some of the specific research. I'm actually doing some ongoing work on this, so this is a bit preliminary, but I want to talk about some of the variety of ways that child care can be a benefit economically in the short term and the long term. If you design child care properly, you can provide good value for money, because child care services that are well designed can meet a variety of needs simultaneously. This is the better bang for your buck I was talking about.

First, high-quality child care is demonstrated to have a positive impact on children's development, learning, health and wellbeing. One part of that is increased school achievement, both for children who are at risk and for ordinary children, children from working-class and middle-income and affluent families who are not at risk.

I've just noted a couple of pieces of research that support that point really specifically with numbers. There was quite a good article in the *American Economic Review* last summer, *Does Head Start Make a Difference?* One of the points that study made was that children—and these were not Afro-American children, they were white children—who participated in Head Start were 47% less likely to repeat a grade than those who hadn't attended Head Start. The question is always asked, "Do these effects only hold for poor children, children you can assume might be in a deficit situation?"

There's a really interesting study the French National Ministry of Education did back in 1983, using census data, that found that for each year of participation in France's universally accessible preschool programs, which started about age two and a half, children regardless of their social class were less likely to fail grade 1. This held true for the three social classes they divided the children into. So you can see some real savings there.

There are a lot of studies that look at things you might call soft, cognitive, intellectual and social benefits of good-quality child care. I'm just publishing through my centre a review of this literature done by Gillian Doherty. It reviews a substantial body of child development literature that shows the benefits that participation in high-quality child care programs have in all of these areas, and that could be available—I have it with me, actually, but it's still in draft—to all the members of the committee if you're interested.

It's really important to note that these benefits only accrue from participation in high-quality child care. Poor quality child care may have a negative impact, regardless of the child's social class; that is, a good home may not compensate for poor quality child care.

The next area of economic benefit, moving away from children, is for parents. If reliable, affordable child care is provided, parents are enabled to pursue work and careers, earn income and become financially self-sufficient. You can perhaps have an impact on your welfare costs and the kinds of things Gerard Kennedy is talking about, that people need to participate at food banks because they don't earn enough income in one way or another.

In this area, there's some interesting research from the UK that calculates the impact on life-time earnings for women if they're kept out of the workforce because they have child-rearing responsibilities for which there is no child care. I've given the names of some of the authors.

There's a lot of American research, particularly because of their large welfare population of single mothers with children. They've actually calculated that a drop in the price of child care can cause up to a 10% increase in the labour force participation of single moms on social assistance.

There have been a number of Canadian studies, small studies, including things like surveys of people at food banks, studies in particular industries like home sewing, low-wage industries and work in rural communities, which have shown that one of the main things that keeps low-income mothers out of the labour force is the absence of reliable, affordable child care. There are a number of studies that show this kind of thing that are quite local Ontario studies, all around Ontario. Metro Toronto has some interesting figures which show that with programs that provide child care assistance like the STEP program, they've calculated they can decrease social assistance costs up to 35% per family per month, so there's an actual dollar saving from that kind of thing.

I don't want to go through all these things. The point I want to hit on is that the other part of child care where you can see direct economic benefits is that you have to remember that child care services are economic activities that have both direct and spinoff benefits.

I want to use some Metro Toronto figures. They've calculated that the child care subsidy system alone accounts for about \$200 million annually of economic activity, while another \$50 million, by their calculation, is spent by full-fee parents, and another about \$350 million to \$400 million in the unregulated child care sector. The interesting thing about the unregulated child care situation is that most of the money that flows from parents to caregivers in that system is actually untaxed income. There are Revenue Canada figures to support that. So you're losing tax revenue right there.

Metro Toronto calculates that for every dollar it invests in child care, it derives about another \$9 in provincial, federal and private spending.

At the same time, child care services have many spinoff expenditures. Nobody's really calculated the cost of these, but these are things like suppliers, companies that make disposable diapers, food suppliers, food preparation, other service providers, maintenance, book-keeping. If you're interested in trickle-down effects, I'm quite interested in this whole idea of having an industry where you have many spinoffs, and if you start closing down that industry, you'll have concomitant spinoffs in jobs being lost and economic activity being lost. There are some very interesting anecdotes about this.

It's undeniable that child care creates jobs. In 1993, the federal Liberal Party calculated that the increased child care spending it was proposing would create 600,000 new jobs in child care services, and those are direct jobs.

I want to summarize that by saying that I think you have to remember that child care is an economic activity that creates wealth and it seems to me that if you put all these things together, you have to really recognize that child care has economic as well as social benefits and is an investment for a government to make.

1620

Ms McCuaig: The good news with child care is that it is the one social service for which there is new funding available. The federal government has moved forward on its child care commitment. On December 13, then human resources minister Lloyd Axworthy made a partnership offer to the provinces and territories on child care: "\$630 million over three to five years to be followed with ongoing funding for the maintenance of spaces that are developed." The provinces have received a letter "offering up to \$630 million over the next three to five years to expand and improve child care services." These dollars would be cost-shared with the provinces. They were asked to respond by the end of January.

To date, all the provinces, including Quebec, with the exception of Manitoba and Ontario, have indicated interest in reaching an agreement with the federal government. Ontario's share of the child care fund is approximately \$240 million. This is a significant amount in today's environment and 50-50 cost-sharing has not been offered to Ontario since 1990.

We appreciate that Ottawa continues to decrease its funding commitments to the province and that Ontario has been particularly hard hit because in this respect both the federal and Ontario governments have made deficit reduction through cuts to public programs and services a priority. However, the federal government has recognized

the need to reinvest in crucial areas of public policy which address employment and family supports. It is in this context that child care is an essential social program.

It is also in this context that we urge the provincial government to endorse the \$33-million agreement Metro has reached with the feds. The pilot project to test the new delivery model for child care would demonstrate that a new funding and accessibility mechanism would deliver a less administratively heavy, more efficient service, meeting the needs of additional families in a more flexible, comprehensive manner.

This is not an immediate provincial funding matter, since it does not require a financial commitment from the province. However, this does have implications for the province as a whole, since it is a model that could be applied across the province if it demonstrated its capacity to deliver a more efficient range of services to more families.

We think the federal government has taken the first steps to addressing the human deficit and the economic deficit around making a commitment to child care. We would like to see the provincial government join with the other provinces in a march towards a national child care program offering high-quality, accessible, comprehensive child care services for all families who wish to use them.

Mr Silipo: Certainly we've had the chance to talk about child care a number of times already during these hearings, although obviously not in the level of detail your presentation puts in front of us. We've talked about this on a number of other fronts over the past number of months and years.

I appreciate particularly your focus today on some of the economic benefits of child care, because aside from the kind of philosophical bent that seems to be driving this government towards privatizing child care, there is also in my view some perhaps genuine lack of understanding about exactly those benefits. I hope your presentation sparks some additional interest.

I'm glad Ms Ecker is here for the presentation and I hope your conversations with her will continue and will result in some better understanding by the government about how foolhardy the actions they've taken so far are, because when they cut child care, they are cutting not just jobs for the people who work in the system, but they are cutting the ability of people who use the child care system to be able to work, as well as to have their children well taken care of.

The picture you paint is obviously not a positive one, although you obviously tell us that in terms of what the federal government is suggesting there may be some light. Just in terms of what is happening in the Metro area, could you talk a little bit more about the agreement that's been reached? As I understand, it still requires provincial government approval, doesn't it, or is that something that has been worked out at this point?

Ms McCuaig: According to our information, it does require provincial government approval, since jurisdictionally child care belongs to the provinces. Mr Axworthy, just before he resigned, sent a letter to Mr Tsubouchi indicating that there was no cost-sharing, that if the only impediment to moving ahead with the deal was cost-sharing, they wanted to assure the province that

there was no cost-sharing and that he would be prepared to proceed immediately. Our discussions with Mr Young indicate there's been no change in that position.

Mr Silipo: So there's at least one instance where all the province has to do is just simply say, "We agree," and there's no additional funding required.

Ms McCuaig: That's right.

Mr Silipo: I'd be interested to hear if Ms Ecker wants to comment on that when it's the government's turn on this, because having worked with you and others around the changes that need to be made, it would seem to me here's a great opportunity for the government to say that it does have some interest in this area, and to actually allow, at least to a limited extent, for us to safeguard some of the places that otherwise are lost and to look at significantly improving the way in which the system is run, as a pilot here in Metro and hopefully spreading to other jurisdictions.

The only other point I want to highlight: In every one of the bullets on page 2 there's a lot of discussion we could have, but I think overall you make the very clear observation that no previous government has ever reduced funding for child care. What we are seeing here for the first time in the history of Ontario is in fact a government that is moving to get rid of one of the basic programs and services we've developed in this province.

We can all claim credit for what's been done in terms of the various political parties, but the point is that it actually has been done, as you point out, by various governments of different political stripes and that while we may have argued over the years about whether we were spending enough, this is the first time we're actually talking about the fact that this government is actually spending less and cutting this program. I just want to underline that point you've made. I'd certainly invite you, if you have any additional comments to offer. I don't need to be convinced by your point of view; I agree with it wholeheartedly.

Ms McCuaig: We haven't made the point here together with it, but it's not just the reduction in funding; it's the first time we're having discussions about reducing regulations for child care; it's the first time we're having discussions about allocating public funding for child care into the unregulated sector.

In here we also have to note that the federal government holds some responsibility. By moving forward with the Canada health and social transfer, it has taken off the safeguards which existed requiring provinces to spend child care money on regulated child care. In this case, both levels of government are at fault. Nevertheless, we're moving in a direction which we have not seen in 15 years of vast community participation in partnerships with governments in the development of child care.

1630

Ms Friendly: If I could just add a comment to that. I've been involved in child care policy in Ontario since the time of the Davis government, since the 1970s, I've been working in the same kind of capacity. The thing I find astonishing is that a lot of the things that are being contemplated, besides the fact that there are cuts, is that we have so much more information and knowledge that

we've derived from research over the years about the best ways to do child care.

The last time the Day Nurseries Act was reviewed, back in 1983, there was quite a lot of community consultation and I was involved in it, everybody was involved in it. I remember that some of the first quite good child care research was coming in from the United States about things like staff-child ratios and group sizes and staff training. I'm sure you're familiar with that, Mrs Ecker. Those things were incorporated into the consultation. These were all part of the discussion.

I guess what I really want to say is that we really do know a lot more about child care as a service, for parents, as a family support, as a child development program, and some of these economic studies that we're talking about hadn't even been done back 20 years ago.

So I think government policy should at least reflect what is known and I hope that the directions will do that.

Mrs Janet Ecker (Durham West): Thank you very much, Kerry and Martha, for coming and sharing your views with us and I look forward to more detailed discussions. I think in a week or two weeks we've got our meeting scheduled.

Two things that I would like to do, just to correct the record, which I think is important to do—I guess I'm a little concerned that the communication among all the child care players, which sometimes seems to work very well, would seem to not be working very well when it comes to what Ottawa and Metro are, or should I say are not, doing. There is no agreement between Metro and Ottawa on any child care funding. If Mr Young is speaking to you or meeting with your organization that would be helpful but he has not yet made that clear to us. His officials, despite what Mr Axworthy kept claiming—that there were no strings attached, that money was just going to flow to Metro—that's certainly not what Mr Axworthy's officials told Ontario or Metro when we had the first meeting. They said it had to be 50-50 cost-shared dollars.

What is important, of course, is that Mr Axworthy is no longer there. We were quite concerned that despite the fact that he—and people seemed to feel that he was so concerned about child care—refused to meet with Ontario twice to carry through with what his offer may or may not have been. The question of course now is he is now gone so what he wanted is irrelevant. What is important is what Mr Young is prepared to commit, and we have indeed communicated with Mr Young to say, "Please can we stop saying who said what to whom and get on with it there indeed going to be Ottawa money and if there is going to be Ottawa money, what will it be available for?"

The other point that I think is worth mentioning: You say here that Ontario is the only province which hasn't indicated its interest in working with the federal government on the red book commitment-whatever that may actually turn out to be—which is not accurate. We have indicated formally, informally, publicly, in correspondence our interest to discuss that and, as I said, the two meetings we tried to have with Mr Axworthy did not occur. So we look forward to seeing what may or may not be available from Ottawa to assist Ontario in its child care operations. I'll let the intergovernmental affairs

people worry about whose jurisdiction it is. If there are resources which can be used and shared I'm certainly interested, and Ontario is certainly interested, in pursuing discussions to access that money.

One of the things I wasn't sure that I had heard you correctly—at one time I thought in your presentation you were talking about the need for affordable child care, that it was something that was important, and economic support for many parents. Yet at the same time in the presentation you are objecting to a child care review that has as one of its goals an affordable system.

You also, I gather, have some concerns about the other goal of parental choice which is something I have heard from people so far—I've not completed the consultation—but so far parental choice has seemed to be a very important factor from many people in the child care field, regardless of their experience in their area.

I was just sort of curious as to why you were objecting to two goals and objectives that I would think, from your presentation, you might have been supporting.

Ms Friendly: We have always advocated for affordable child care. You can make child care affordable in different ways. If we're talking about affordable to parents, because that's one piece of affordability, you could make it affordable by having somebody else pay for some of the costs, like government or somebody else. Another way you could make child care affordable is to make it a less costly service. The best ways to do that are to have less people working in it or to pay them less money. Those are the main ways that you can make child care more affordable.

So since our position—and I guess this would be true of most people in child care, in anything connected with child care—is that child care needs to be not only more affordable but high quality, and since what we know about quality is very much related to the people who work in it and how many of them there are and what kind of training they have, we have been advocating for high-quality, affordable child care.

Now, the solution to that, to us, has always seemed to be to have more government funding. From a policy analysis point of view, if you look at countries that have child care, that's how they have it. I don't object at all to a child care review that looks at affordability, not at all. I guess we haven't spoken about child care and I haven't been asked to speak to anybody, and I would be happy to. I have been making suggestions for years about how to make child care more affordable, but we're not just interested in more affordable child care, to put kids someplace so the mom can work. We're interested in child care as a quality early childhood service. That's when it's good for children and that's when your long-term benefits can accrue. If you do it the other way, it's not a very good thing to do, even if the mother can get off social assistance and work.

Mr Kwinter: Thank you very much for your presentation. I was interested in your discussion just now about affordability. The government is suggesting the ultimate affordability and that is to take your children and leave them with your relatives and leave them with neighbours. Sounds reasonable. It's a proposition that could attract some support. What do you have to say about that?

Ms Friendly: I don't have any objection to children being taken care of by their grandmother or their auntie or whoever it is, or their mother's or father's friend or neighbour. In reality, many people's mothers or aunties don't live anywhere near them, or they're already in the labour force, or they're living in Florida, or one thing or another, they live in Thunder Bay or St John's, Newfoundland. Families are not the way they used to be and most people's next-door neighbours are not there either. So then you have a situation where parents are seeking what sounds like that kind of informal child care but isn't within the context of the extended family and the neighbourhood network any more, but is much more a situation where people, because they can't afford or access something that they can have some assurance about, are looking in the newspaper to find somebody they don't know whom they can pay less than they can for regulated child care.

I want to be really clear. I can tell you one thing: My mother wouldn't have volunteered to take care of my children every day, day in and day out. She was a very happy grandmother who did not live in Toronto, so it wasn't a possibility anyway. This is a whole different thing than talking about a system in the modern era of high-quality child care services that people can choose from among because they're there and they're affordable.

I just want to add that some of this has been couched under the framework of parental choice. Kerry and I are both parents; we've been on parent boards; we know a lot of parents; we talk to parents all the time. It is certainly true that parents want choice. Some parents want to work, some parents want to stay at home for a period of time. We support improved maternity and parental leave. Some parents would like to work part-time and have more flexible work hours. We would also support that. We would support a lot of much more work-and-family-friendly practices as public policy. I think that in order for people to have a real choice about child care there have to be things from which they can choose, and that's what we're supporting. So this notion of parental choice is one that we would support as well, with that being part of it, but I think we might interpret it somewhat differently. I don't think choice is giving somebody a chit so you can go out and purchase child care like a pair of shoes. It's not a marketplace thing.

Ms Castrilli: I want to thank you, Ms McCuaig and Ms Friendly, for putting in very stark terms what the consequences have been of the cuts and also the economic analysis of child care. I have one question based on something that you said, Ms McCuaig, that scares me. You talked about the reduction in regulation in child care and I wonder if you might elaborate on that quickly for us.

Ms McCuaig: Again, the indications are from government statements, from a questionnaire that the government answered for us during the election campaign, that the direction they're moving in is towards the deregulation of child care, or weakening the regulation around child care, or diverting public funding which now is targeted towards the regulated sector where there's some accountability for what the public dollar is buying into

the unregulated sector, where there is no way of measuring or getting accountability for what public funding is purchasing.

We have been monitoring statements that ministers and the Premier have been making in this regard and the indications are that there will be a weakening of regulations or a deregulation of child care.

The Chair: I'd like to thank the Ontario Coalition for Better Child Care for their presentation today and Ms McCuaig, Ms Friendly. We're a little over time—

Ms Friendly: May I make one last comment? This idea of more bang for your buck, I think is exactly what I want to come back to at the end. If what we're talking about is finding a way to care for children so their mothers can work or be in training, which is a perfectly legitimate purpose for having child care, it's only one thing that you're doing. If at the same time you're providing a child development service, and I don't think you can argue that you're doing that if you are using an unregulated system of neighbourhood child care providers, it may be perfectly good care, but it's not a child development program. It's also not a program that supports families at risk.

What I want to say is, economically you're not doing very well for your public money if you only do one thing at a time with child care. Thank you.

The Chair: Thank you very much for joining us today.

UNITED SENIOR CITIZENS OF ONTARIO INC.

The Chair: Our next group is the United Senior Citizens of Ontario Inc, Mr Smith, Mr Leitch and Mr Connon—I'm sorry, Mrs Leitch.

Mr Al Smith: Thank you very much, Mr Chairman. My name is Al Smith and I'm the president of the United Senior Citizens of Ontario. With me is Jane Leitch, a former past president of our organization and also the chair of the Senior Citizens' Consumer Alliance for Long-Term Care Reform, and Wally Connon, executive board member of our group.

We'd like to thank you for this opportunity to present this brief paper for your consideration. The United Senior Citizens of Ontario represents thousands of seniors in the province through memberships in over 1,200 clubs.

Seniors in our province have been devastated by the continual attacks by the federal government through increased taxes, clawbacks, the GST and other forms of taxation which drastically reduce their ability to maintain a decent standard of living. It is estimated that approximately 47% of the seniors in the province are living below the poverty level. It is obvious, therefore, that we cannot tolerate further inroads in our diminished income.

The USCO believes that the government's approach to finding savings and restructuring in the Ontario drug benefit plan, as outlined in schedule G, is the wrong approach. In fact, introducing user fees into the Ontario drug benefit plan contradicts the evidence on the impact of such fees and copayments on health outcomes. It also overlooks the cost of establishing the necessary administrative structures for collecting such fees and is in direct violation of the campaign promise outlined in the Com-

mon Sense Revolution. In fact, the Common Sense Revolution clearly states:

"In the last decade, user fees and copayments have kept rising and many health care services have been 'delisted' and are no longer covered by OHIP.

"We looked at those kinds of options, but decided the most effective and fair method was to give the public and health professionals alike a true and full accounting of the costs of health care.... Under this plan, there will no new user fees."

The Treasurer has indicated that he anticipates generating some \$225 million in revenue through the introduction of copayments on the Ontario drug benefit plan.

We support the Senior Citizens' Consumer Alliance for Long-Term Care Reform in recommending the elimination of overprescribing medications, which is one of the primary sources of illness and institutionalization of senior citizens. This would be not only a cost saving but also a lifesaving measure. In an investigation into drug reform issues, we offer the following facts: In 1989, Statistics Canada estimated that 4,000 Canadian seniors died as a result of inappropriate medication use. In a recent study, 41% of elderly patients admitted to hospital had an identified drug-related problem, including inappropriate dosage, adverse drug reaction and/or drug interaction. Inappropriate medication use is one of the five most important quality-of-care problems in the elderly in terms of avoidable morbidity.

New expensive drugs are often prescribed when equally effective, older and cheaper medications are available. In 1993, a study conducted by the Patented Medicine Prices Review Board found that 105 of 177 drug products sold in Canada were priced above the median international price and that Canada's drug prices were the highest in the world 24% of the time.

A review of the literature on user fees and copayments prepared in 1994 for the Premier's Council on Health, Well-Being and Social Justice by Stoddart, Barer and Evans concluded that the charges are neither a necessary nor sufficient condition for overall cost control in the health care systems.

User fees act as a disincentive to both appropriate and inappropriate use by the poor but have little or no impact on reducing inappropriate use for those who can afford to pay. User fees which are low enough not to act as a serious disincentive often cost more to administer than they actually generate, and I'm sure we all remember the GST.

User fees increase overall spending on health costs, which ultimately has a negative impact on the competitiveness of our corporations. Adding user fees to the Ontario drug benefit plan increases the overall percentage of the gross domestic product which Ontario spends on health services, bringing us closer to the American system and thereby destroying our competitive advantage.

A 1992 study prepared by the Premier's Council on Economic Renewal in Ontario found that businesses in Illinois, Michigan, New York, California and Ohio were spending two and a half times more than those in Ontario for medical benefits, workers' compensation, unemployment insurance and social security. This is a major factor in attracting and retaining businesses in Ontario.

It is our view that the measures outlined in schedule G do nothing to address these quality-of-care issues; in fact, if one were to believe the research evidence, there is every indication that the introduction of a copayment will increase the amount of inappropriate medication among Ontarians.

Furthermore, since schedule G also calls for the deregulation of drug prices, it is likely that Ontarians will end up paying more for their prescription medications, when we already know that Canadians are already paying world-record prices for our drug products.

We recommend the following amendments to schedule G of Bill 26:

(1) Eliminate any plans to introduce a copayment into the Ontario drug benefit plan.

(2) Restore the government's power and authority to regulate Ontario drug prices.

(3) Introduce measures which will allow the government to develop and enforce the most appropriate prescribing guidelines aimed at ensuring the safe and affordable use of prescription medications.

(4) Introduce measures to ensure the establishment of ongoing physician and consumer education programs geared to improving appropriate drug utilization.

Regarding hospital cutbacks: We would disagree with any form of hospital user fees. We would suggest a health hotline and propose an aggressive education program to inform the general public as to when it is appropriate to rush to the emergency room services in the hospital. Sometimes it would be more suitable to visit the local health clinic or your doctor. Health clinics should be monitored for abuse of the system. The high cost of emergency service should be stressed. With the modern technology of today, a printout should be given to each patient before they leave the hospital, be it for emergency services or any medical attention given.

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Covering houses in our concerns: The Ontario building code should require smoke alarms and sprinklers for all collective living accommodations. We strongly feel that every retirement home should be required by law to be policed to meet all of the safety requirements for public seniors' residences. Although there would be an initial cost involved, the savings to the taxpayer in case of fire and loss of life would more than offset the cost involved.

Transportation: A provincial transit integration task force is badly needed to plan integration of transport services for seniors and the handicapped. Further, people in the north are forced to wait hours in the middle of the night if their trip crosses the boundary of two separate bus lines.

In a presentation the USCO made in February 1995—that was a year ago—to the standing committee on finance on the subject of Bill 164, automobile insurance, all three parties stated their willingness to review Bill 164 and to do away with the onerous sales tax the previous government had put on auto insurance premiums. We would be happy to serve on any committee set up for such a review, and we might add, ladies and gentlemen, we haven't seen any action on it yet.

The USCO has been requesting for years that the names of young offenders should be published. We are

pleased to know that this recently seems to have been accomplished, and we'd like to encourage the government to make sure that the public have a right to protection more than the individual has a right to privacy.

Once more, we would like to express our appreciation for this opportunity to present our views to the committee. We would like to thank you, and if there are any questions, we'll be pleased to try to answer them.

Mr Ford: Thank you for coming today. We appreciate your coming and putting your input on these various programs. On this area that you say, "Restore government's power and authority to regulate Ontario drug prices," it's good to do that, but I don't think it creates a harmonious relationship between the government and the drug manufacturers, the reason being—I have met with several of the manufacturers—they have investments in Canada, they are producing drugs and they are exporting an awful lot of these drugs outside the country. Furthermore, on the regulation of the drug prices—you'd have to have a competitive situation. Consequently, if we did that, then they would reduce their investment and only concentrate on small operations in Canada just to service the Canadian market.

Mr Smith: I'm going to ask Jane, if she would, but just before I do, I'd like to point one thing out. The Canadian Drug Manufacturers Association is one of the top 15 companies in Canada on research and development. I don't think too many of the pharmaceuticals do. You already in the province ask for the use of generic drugs where possible, and we're saying let's get more of it, because if you really want to save this health care of ours—and let's stop worrying about the pharmaceuticals making big bucks. A good percentage of their products is produced offshore—

Mr Ford: I agree.

Mr Smith:—and we have a problem, and one of our concerns is that—like last year, let's take a look. The generic drugs went up 7.1%. The pharmaceuticals went up over 15.2%. So who's gouging? When I see the court cases going on, I get a little concerned with the fact that the so-called pharmaceuticals are taking the CDMA to court and want to change the shapes and colours of pills for seniors, who will be most adversely affected, yet they tell us out of the other side of their mouth, "Yeah, we're interested in seniors." I find it hard to believe.

Jane, maybe you'd like to comment on some of this, because you've worked extensively on it.

Mrs Jane Leitch: You've done a good job of explaining it, but I would just like to add that I think we all know that user fees are killers for seniors. They do not help anybody. The poor they discriminate against, and the people who can afford it can certainly have it. But the high cost of drugs and the deregulating of the cost of drugs seems to us to be a useless exercise. It will give the opportunity for the prices to go higher, it will not make it any easier for people to get the medications, and this is a very, very serious problem and one that we feel, with the amount of people who can afford to pay for their drugs and for the user fee to be collected will not be money saving; there is no way. The cost of administering such a program would be so high.

Mr Ford: I know the points that you're making here, and I go along with a lot of them, but let me explain something. Approximately one month ago, I had a box delivered to my office—this isn't exaggeration—about two feet long, probably a foot high and probably a foot and a half wide. I opened up the box, and here it was packed with prescription drugs. The letter inside says, "Please check on these people, who have got second, third, fourth, fifth and up to sixth opinions and thrown the drugs in the garbage."

These are the realities we're facing. We're trying to cope with the deficit right now, and we're seeing these things. These are the things that we're working on. These are the causes for some of these things. It's not only one person doing that. I get letters from people telling me these things. So this is why they probably brought in user fees, so that it would cut down on people doing that.

Mrs Leitch: That's a very minimal amount of people who do that, sir.

Mr Ford: I'm not here to debate that.

Mrs Leitch: I would like to say that it would probably cost more to have that inspected and everybody checked. Who prescribes the drugs? We don't prescribe the drugs; the doctors do.

Mr Ford: That's right, but you're questioning the fact of a user fee and different aspects of the drug industry.

Mrs Leitch: Some people abuse any law, don't they?

Mr Ford: I'm visiting a drug company tomorrow on an inspection tour to see what investments they have made due to these regulations.

Mrs Marland: Thank you and welcome. As always, the briefs that are presented by the United Senior Citizens of Ontario are excellent. It never seems, over the years I've heard you, on any subject matter, that you have not done your homework. That's sincerely appreciated by us.

I just wanted to make a suggestion to you on the issue of following up on the review of Bill 164, the auto insurance, that you're referring to actually on your last page, on page 6. You may not be aware of the fact that Mr Ernie Eves, the Minister of Finance, appointed a very important responsibility to his parliamentary assistant, Rob Sampson, who is the MPP for Mississauga West, to review the whole issue surrounding automobile insurance in the province. That review started as far back as July. Mr Sampson has been meeting with over 100 different groups and delegations in the six months since that time. We are still interested and need to hear from anyone else who wishes to make a contribution.

This committee, in fact, starting on the 19th, a week on Monday, is commencing the public hearings on what the recommendations of Mr Sampson are in terms of his review at this point. So he has held these meetings, he's now coming forth with some recommendations, and there is a very clear time frame that they would like to have this completed by.

Because I don't sit on the subcommittee, I don't know whether this committee still has time available in the two weeks starting on the 19th that they're holding the public hearings on the automobile insurance issue. But in any case, I encourage you to contact Mr Robert Sampson's office. If you can't get before this committee, because you've already spent time on that subject I know you're more than equipped to talk to Mr Sampson about it.

Mrs Leitch: Interesting that we never had the opportunity or were invited to speak on behalf of seniors.

Mrs Marland: Pardon?

Mrs Leitch: It's interesting that the United Senior Citizens of Ontario did not have an opportunity to meet with him and present our views to him.

Mrs Marland: Well, what I'm saying to you is, you have that opportunity. They're just beginning another segment of the public input process. That's why I'm suggesting to you that you can do that.

Mr Smith: If I could ask a question, I'm just kind of curious. Last year we submitted a follow-up by John Atto, our insurance adviser, at the request of this committee, to clarify some points. I'm a little disappointed that maybe it wasn't filed someplace where it could be used.

Mrs Marland: I'm sure it will have been used in that where they started their review was to look at existing information, existing committee reports and the issue as it's evolved over the last two governments, because each government has brought in its own insurance bill. So no, it would have been part of that, but what I'm suggesting is that this is 1996; there may be some aspects of it that you want to update too.

Mr Kwinter: Thank you very much. I really am very, very interested in what you have to say for two reasons: You are becoming a larger and larger factor in the population of Ontario, and I'm getting closer and closer to being a member of your group.

Mr Smith: We'd be delighted to have you, and anybody else who would like to come.

Mr Kwinter: I really want to just pursue this drug problem because I think it's critical. It's a serious problem. We had another group in here today, the Alliance of Seniors to Protect Canada's Social Programs, and I had a chance to talk to the pharmacist who was with them whom I knew in a previous life.

I want to recount a story that happened before this government came to power, which I think shows the problems that we have with this user fee. My brother-in-law is a pharmacist. He owns a Shoppers Drug Mart franchise and he often tells me stories about how seniors who are on the ODB, where they get their drugs free, come in and they present their card. Once it's on record they just come and they get their medication. As a result, unless, as some of the stores have now put in, there's a computerized system where they can monitor the amount of drugs that were taken, there is this problem that when they die you open up their medicine chest and they've got a 20-year supply of drugs in there.

The more significant situation that I find is he's told me stories about how certain drugs were not covered and a customer would come in and say, "I'm here to pick up my prescription," and they've said, "That's going to be \$7," or "It's going to be \$5," or whatever it is. They say: "Oh no, no. I don't pay for my drugs. I'm a senior and I have a card." They say, "Yes, but this isn't covered by the Ontario Drug Benefit plan." So they say: "Well, that's fine, then take it out. I'm not going to pay for it." The problem with that is that may be the most important drug for them, and that is the one they've taken out.

When you have the user fee, that in itself is going to be a deterrent. It may sound like it's not very much, but

to some people, the idea that they have to go out and pay this user fee is going to be a deterrent. I'm just wondering whether you have had an experience like that or if you feel that's a valid kind of concern.

Mrs Leitch: We certainly have. But with the new monitoring system in the drugstores, I hope that will identify a lot of this overmedication and the difficulty some people have in restraining themselves from getting everything they can out of the ODB program. However, I think you're perfectly right when you say that there are people who will be disadvantaged. There are people who, with a user fee, will be more disadvantaged. There will be no incentive for them to pick up their medication. This is very true with people who are confused and maybe a bit upset, that they are going to neglect taking their medication, and the \$2 that they have to put out to get it is just going to be another reason for them not to bother to take their medication. So we really are very concerned about the fact that it's a disincentive for people to take their medication if they have to pay for it.

It's also often going to cost more on the health care system if they don't take it. We really are strongly in support of the fact that the user fee does nothing to add to the value of life for not just seniors, but there's a lot of handicapped people who have the same problems. We're very concerned about this.

Mr Smith: Having said that, we'd like to suggest, and one of the things we do in the brief and in our annual brief to the government is that we have suggested that you need to watch some of these storefront clinics. I am in close touch with a number of the family physicians because I sit on the district health council for Simcoe county, and have for the last six or seven years. One of the concerns we had was we'd get doctors talking to us and saying: "We have people show up Monday morning. They've hit the emergency once, they've gone in and out of the clinic and they've got four or five prescriptions in their hand." Our question is, is this a licence to print money for the clinics or should they be more closely monitored? If all they're doing is pushing pills, I don't think you need walk-in clinics. I'm sure some are doing a good job, but some I think are doing an awful job. That's one of the problems, we feel, because if they're just passing out the pills—in one case that I can tell you about, that I know, the chap walked in and he said: "I've got five prescriptions. Which one of these damn things do I take?" The doctor said, "I don't think you'd better touch any of them." This was Monday, but had he gone and cashed those in and got them, what would have happened? There doesn't seem to be any monitoring of this kind of system.

Mrs Leitch: Some education should be put into training doctors, pharmacists and seniors how to use their medication properly. If some money were put in there instead of granting special privileges for the drug manufacturers, it would do a lot more good to the system.

Mr Silipo: Thank you for your presentation and for, among other things, reminding us again about the promise that the government made to institute no user fees and the breach of that promise, as you and many others have pointed out to us in these hearings and in the Bill 26 hearings. As I'm sure you know, the government, at least

for now, has chosen not to listen to you or to any other groups.

Mrs Leitch: We sure do.

Mr Silipo: This is now the law. So we will all have to deal with that and live with it for as long as that is going to be the case.

I think we would all, quite frankly, benefit from your continued work in this area to see exactly what is going to happen now that this is here. I appreciate the fact that you put the issue again in front of the committee, but I don't have a lot of faith that the government members are going to recommend a change in policy from what they've done under Bill 26. But so be it.

I was interested in pursuing a little bit more this question of the overprescribing and what could be done around that, because you probably are familiar with the position that we had put before us by the pharmacists' association, which had a number of useful suggestions that they made to us around that, including referring to a pilot that's been going on now for some time, I gather, in BC, if I remember correctly. By working together, they have managed to reduce the overuse of medication by seniors and others, but particularly seniors, and obviously one of the things that does it is saves money. I just wanted to get your thoughts on that in terms of whether you're familiar with that particular initiative or some of the other suggestions that the pharmacists' association made to us, because they seemed to be very much in the vein of what you're recommending to us.

Mr Smith: One thing I would say to you is that I think the pharmacists are a good group of people. I know there is a battle going on between the medical people and the pharmacists on who should be the point of entry. One of the things I have found in talking to seniors' clubs all over this province and talking to them personally is the fact that it's usually the pharmacist who picks up any mistake in the prescription that's been supplied by the physicians. I'm not knocking physicians, because they do an excellent job, but you can't be all things to all people. You probably have noticed as well as I do that if you're in a doctor's office sometimes and you ask—a lot of people don't, but if you ask him questions about a prescription, he usually goes to the big book and opens it up and says, "Oh, yeah, it says that in here." You go to the pharmacist and he'll whack it right off very quickly.

Now that you've put in this computer system—and I think it's an excellent thing you've put in, so that I can't go to this pharmacist and I can't go to that one; the pharmacist is going to pick it up—I think we should capitalize on that because it's an excellent point to show seniors down, or anybody at any age who gets a prescription from this doctor and then goes to another one or

drops in at the clinic. It's one way to stop them because many of these prescriptions are acting counteractive to each one and they're dangerous. As I say, that's why the 4,000 people they say died of drug overdose in 1989, I'll bet you that figure's gone up. But I think the pharmacists would be the ones to take the initiative in that because they seem to know more about it. Certainly, any time I've phoned they will tell me very quickly whether you can have a drink or whether you shouldn't take this thing or that, or whether it'll react against it or kill what you're taking. It's very good; you won't get that out of most MDs' offices.

Mr Wally Cannon: If I may just add briefly to the general remarks, I think the problem that seniors are having, and others who are in the lower margins of our economic society, is they get hit every conceivable way. We think that they're an un—what would you call it? I'm stuck for a word. I'll put it this way: You keep coming back, and if you're a landlord, you're going to get more rent out of this individual. If he drives a car, he's going to be paying probably more for the car or for the insurance or for his drugs. It all keeps coming down. As the federal government saves money, the provincial government has to save, cut corners in order to make up for that. It goes down to the municipality and the municipality then dumps it on the guy on the bottom. It's not a limitless resource; we're going to run out pretty quickly.

The Chair: I'd like to thank the United Senior Citizens of Ontario for their presentation. That brings to a conclusion the time for this evening.

Mr Smith: May I just make one more comment? I know that everybody who was here ahead of us whom we heard today seems to be knocking the government. I'd like to say one thing: We think some of the things you've done have been darned good and we're pleased to see them. What we feel and our concern, and we've written the Minister of Health, is that maybe you're moving a little fast. You've got organizations such as ours, and in every letter we write you we usually try to offer some suggestions and we're always willing to serve on a committee or come before you to answer your questions, because we do talk to thousands and thousands of seniors across the province.

Mrs Leitch: And we all vote.

Mr Smith: Yes, and we all vote.

Mrs Marland: And we thank you on behalf of the government, because that positive, constructive approach we truly appreciate.

The Chair: Thank you very much. The committee stands adjourned until 9:30 Monday morning, and we will be in the Amethyst Room.

The committee adjourned at 1712.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Bassett, Isabel (St Andrew-St Patrick PC) for Mr Arnott

Carr, Gary (Oakville South / -Sud PC) for Mr Sampson

Gilchrist, Steve (Scarborough East / -Est PC) for Mr Spina

Marland, Margaret (Mississauga South / -Sud PC) for Mr Martiniuk

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Official Report of Debates (Hansard)

Monday 12 February 1996

Journal des débats (Hansard)

Lundi 12 février 1996

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Ted Chudleigh
Clerk: Franco Carrozza

Président : Ted Chudleigh
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRS

Monday 12 February 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES
ET DES AFFAIRES ÉCONOMIQUES

Lundi 12 février 1996

The committee met at 0932 in room 151.

PRE-BUDGET CONSULTATIONS

CANADIAN MANUFACTURERS' ASSOCIATION

The Chair (Mr Ted Chudleigh): Seeing a quorum, we can proceed with the standing committee on finance and economic affairs and our pre-budget consultations.

This morning we welcome the Canadian Manufacturers' Association; Paul Nykanen, John Allinotte and Brian Collinson. Gentlemen, we have half an hour, if you'd like to make your presentation, and then we can proceed to questions and answers. Thank you for joining us this morning.

Mr Paul Nykanen: Thank you for the opportunity to present our views. We appreciate that very much. Before we get into our formal part of our presentation, I'd like to give a very brief overview on how we see manufacturing in Ontario right now. In terms of who we're representing, our member companies in Ontario represent over 75% of the total manufacturing production, which translates to about \$140 billion a year. So you can see that it is a very key factor in the economic health of Ontario.

Our principal focus is the strengthening of the competitiveness of Canadian industry and we are quite concerned about the deterioration that we have seen over the last four or five years. Any of the increases in production that we have experienced, and certainly there have been significant increases over the past year or so, have been primarily as a result of exports. The domestic market has been very flat. In fact, our market share has declined over the last 10 years on a steady basis. Everything that is happening in Ontario right now is export-oriented, and of course 80% of our exports are to the United States—so that represents quite a concern—and of those exports, the automotive production is a large part of that. As the US economy goes, consumer demand goes, so goes manufacturing here.

Also, some of the concerns that we have right now, two fundamental things as far as the domestic business is concerned: One is that consumer debt is at an all-time, 47-year high right now and savings are very low, so that in 1996 we expect little or no growth. The manufacturing jobs themselves: We're down to about 960,000 jobs right now compared to a 1,000,076 in 1989 in the pre-recession time.

Investment last year, in 1995, has been fairly strong, but in real terms we're really only up to the levels of 1989 at this stage. Comparing the two, investment in Ontario was 11.8% of GDP in 1989, whereas in 1994 we

were at 2.6%. That's in terms of net real investment when we don't consider the depreciation. It's also important to note that most of the investment we have made in Ontario has been in machinery and equipment and very little in bricks and mortar, and that's part of the reason you have seen the drop in manufacturing jobs.

I turn it over to Brian to make a few comments.

Mr Brian Collinson: Mr Chairman and members of the committee, the general state of the economy gives rise, in the CMA's opinion, to several conclusions.

Firstly, it is essential that the government exercise a good deal of conservatism in the budgeting process. In recent times economic forecasting for budgetary purposes has been horrendously overoptimistic. CMA believes that the most responsible approach would be to budget on an assumption of 0% real growth. If, as we hope, a surplus results, it can be applied as needed.

Second, the CMA believes that two strategies for growth must be pursued. First, there must be cuts to government spending. The CMA congratulates the present government on its excellent beginning. However, CMA is firmly convinced that spending cuts cannot be the only priority. There must also be expansion of industrial growth and development through the enhancement of capital investment. Only economic growth will give Ontario the revenue to apply to permanent elimination of the deficit and to minimizing the debt.

The CMA believes that deficit reduction and cuts in government spending must remain the primary priority of the government for the next budget, but CMA believes that the task of truly licking the deficit over the long term can only ultimately be realized through competitive measures which make Ontario the most attractive place to invest in North America. Government expenditure must be completely reshaped and reprioritized so that a truly competitive environment is created for industry.

I would now like to call on Mr John Allinotte to comment on some of the key taxation issues.

Mr John Allinotte: Mr Chairman and members of the committee, we've delivered this morning a brief that details the issues that our members believe should be taken into consideration and this morning I am simply going to highlight some of the more significant tax issues for you.

First of all, we'd like to address the deficit cutting as a first priority. CMA strongly is supportive of the deficit-cutting measures of the government. We acknowledge that deficit cutting should take precedence over reductions in taxation. Many of the people of Ontario have seen pressure being brought to bear on the government to hold back on these cuts, but CMA is supportive that the government continue in this fashion. A favourable climate

for business must be created in Ontario and that favourable climate can only be achieved when we have the deficit under control. CMA heartily supports the government's efforts and urges it to stay the course for the long-term good of the province.

To supplement the deficit-cutting actions that the government has introduced and will introduce, we believe it's in renewing the open-for-business concept that has been in Ontario before and we suggest it should be brought back. There are certain specific tax measures which we think should be taken into consideration. Firstly, harmonization of GST and PST.

CMA was pleased with Premier Harris's recent comments that the harmonization discussions with the federal government were proceeding. This has been identified as a priority issue by our members. Harmonization of GST and PST would enhance the competitiveness of the manufacturers in Ontario. It would allow Ontario to expand its tax base more equitably across businesses. It would result in a simpler and more efficient system, both for administration and compliance. Harmonization with full-input tax credit would benefit Ontario through reduced administrative burden and cost to government, reduced compliance cost to both small and large businesses, increased competitiveness of Ontario products abroad and increased competitiveness of Ontario products at home against imports.

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Harmonization should be provided for immediate full input tax credits with one harmonized tax rate and one tax base, with no exceptions throughout Canada. Consumers will ultimately obtain the most benefit from the harmonized system, which provides full-input tax credit to business through reduced prices of goods. Harmonization does not represent a shift in tax burden from business to consumers, nor does it represent windfall profits to business. It allows Ontario goods to be more competitive, both at home and abroad, through lower prices.

CMA believes Ontario should take a leadership role in this objective and take advantage of the current opportunity to negotiate with the federal government, an opportunity CMA believes may not be present in the distant future.

Research and development superallowance: The current Ontario R&D superallowance is a key factor which ensures research is done in Ontario. It is a vital aspect of the Ontario tax regime. The superallowance in its current form is both complex and difficult to calculate and administer. These complexities impose an unnecessary burden on both government and business.

CMA believes the current problems can best be addressed by making the allowance a single-rate, non-incremental credit, with an appropriate increase in the rates to offset the benefits that would be otherwise given up on the incremental allowance. This proposal would greatly reduce the onus of administration of the superallowance, with no loss of tax revenues.

Corporate minimum tax: CMA and its members recommend the repeal of the Ontario corporate minimum tax. This tax legislation provides little, if any, revenue to the government while being viewed both as a nuisance

and punitive by the business community. This legislation is primarily operative when corporations are faced with economic downturns and already limited cash flows. It is viewed as a negative stimulus to investors contemplating Ontario as a place to operate. It is injurious to the tax competitiveness of the province. These adverse consequences can in no way be offset by the minimal revenue that it should raise.

Lastly, capital tax: CMA supports the pre-election stance of the current government that capital tax should be creditable against corporate income taxes. Ontario is desperately in need of capital investment. This tax in its current form effectively functions as a disincentive to capital investment by taxing investment rather than income.

If the committee should have any questions, I'd be prepared to answer them now.

The Chair: Thank you very much, gentlemen. We have approximately 18 minutes. We'll start with the opposition. Mr Kwinter.

Mr Monte Kwinter (Wilson Heights): It's not 18 minutes each?

The Chair: No, it's the total.

Mr Kwinter: Thank you for your presentation. You covered a whole range of areas, but I'm interested in pursuing some of your observations about the economy and the fact that, if it weren't for exports, we'd have very little growth in the economy in Ontario. What do you feel, the fact that the Canadian dollar is what it is contributes to that particular situation, and what happens if the Canadian dollar was to go to 80 or 85 cents? How would that impact on your sector?

Mr Nykanen: You've hit on one of the key things as to why we have been successful with our exports, and that is that we now have at 72 to 74 cents a properly valued Canadian dollar, which allows us to be very competitive in the United States and overseas. So it has been a very significant factor. The other consideration of course is the interest rates that exist in Canada and in the United States, and the dropping of interest rates has actually helped people in making decisions, develop a little bit of confidence, particularly in the United States where we have seen more consumer confidence, if you will. So those two factors have been a key thing.

When we had a Canadian dollar at 82 cents and 85 cents roughly, we believe the Canadian dollar was overvalued at that time and our export businesses suffered quite significantly. You can almost track the curve in increase in exports with the path of the Canadian dollar.

Mr Kwinter: To get back to your presentation, you talked about consumer debt being at a 47-year high and savings are low. I assume you're in favour of the government's proposal to give a tax break, a tax reduction. Do you see that as improving that situation?

Mr Allinotte: As far as CMA's position with regard to the proposed reduction to personal income taxes, as an association we are neither for nor against it. But one of the things we've found in our experience with our friends in Ottawa, if an income tax reduction is in the offing it should be phased in with the proposal to harmonize PST and GST. As far as a stimulus to the economy, industry believes we would see reduced labour costs from a tax

reduction; there would be more funds available to our workers in take-home pay. It has to mean a stimulus someplace along the line.

Mr Kwinter: You mention the fact about the harmonization. We're getting conflicting recommendations. Last week we had the Ontario Restaurant Association before us. As small business, they represent a relatively significant sector of the economy. In their presentation to us they opposed harmonization. So here we have two sectors in the business community: the Canadian Manufacturers' Association advocating harmonization; on the other hand, we have the Ontario Restaurant Association opposing it. How do you reconcile those differences when you're both businesses, you're both in the same economy?

Mr Allinotte: I think what the restaurant people are somewhat concerned about is that when that harmonization is done, the marketing job, if it's done in the same fashion when GST was introduced, will be a hard sell to the purchaser. If the harmonization is marketed properly, combined with a reduction in the Ontario personal income tax rate, the consumer I'm sure will be more receptive to the harmonization than they were to the GST. I think what the restaurant people are talking about is just being gun-shy.

Mr Kwinter: When you talk about the stimulus of the tax cut—and I am of two views: One, either the tax cut is being done to stimulate the economy, which the government certainly says it's doing; the other one is that it's to make the consumers feel good. They're getting some money back, the tax reduction is lowering their taxes. It would seem to me, if it's to stimulate the economy then it would be far more effective that instead of giving the money to the consumer who would be then acting as the agent of the government to put it back into the economy in a way that the consumer decides, which means they could not put it back into the economy if they decide—they could use it to pay down this record debt; they could use it to build up their low savings—you have a situation where that money—really, there's a slot of slippage. You have no way of really determining how much of that benefit to kickstart the economy is going to find its way back into the economy.

If the government's true purpose was to kickstart the economy, I think it would be far more efficient for them to not use the consumer as the agent and just use it to stimulate economic activity by government projects. We had the roadbuilders in saying roadbuilding in Ontario is at a dramatic low. Here's an opportunity to get those jobs going, to get that going, by direct government expenditures as opposed to, as I say, putting it out to the consumer and taking their chances as to how much of that money's going to come back into the economy. Do you have any comments on that?

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Mr Nykanen: One comment that I might like to make there is that there are certain infrastructure projects that are needed. We must have ongoing maintenance and that sort of thing, but there is a finite end to every job created with capital spending on some specific projects. We feel that it is much more important to have an ongoing stimulus to that. There are two considerations: one is from the consumer side, where a person would have more

disposable income, have a greater confidence; but the other is the investment climate itself.

If we can stimulate the domestic climate with the low interest rates that we have right now and also the personal tax cut—by the way, I'd like to emphasize that the personal tax cut is not a huge issue as far as we are concerned, we're really commenting on that as to what the impacts and stuff might be. But certainly it would have an impact on stimulating the economy, and that would be an ongoing type of thing rather than a sunset on a capital project.

Ms Frances Lankin (Beaches-Woodbine): Good to see you again, Paul. Welcome, gentlemen. I was interested in some of the positions you've put forward with respect to different taxes, but let me just pick up on the point that Monte left off with around the personal income tax break. I guess it would be helpful if we were provided with some detailed information from the Ministry of Finance. On the first day of the hearings, we requested that kind of information. We know in previous years at pre-budget consultations we've been given projections of medium- and long-term revenue and expenditure and the pressures in the system and some of the costs around what various options of a 30% income tax cut would look like, but we haven't got any of that.

So in some ways I guess we are working a bit in the dark. Any of the consumption studies that I saw when I was in government indicated that an income tax break of this sort that's just 30% across the board will obviously put greater amounts of dollars in higher-income earners, because of the progressivity of the tax system, and there were real questions about whether that would in fact be stimulative. Instead, the advice that finance officials used to give in those days was to gear your income tax breaks to people at the lower end of the income scale, because it becomes disposable income more quickly and back into the economy.

I think the thing that concerns us today looking at the situation is, with the amount of cuts we have seen to municipal budgets, for example, and Bill 26 allowing a wide range of new user fees, which is another form of taxation at the municipal level, for middle-income and low-income earners, we suspect that the value of the tax break is going to be more than offset by increased user fees. For the higher-end folks, there will be the fair-share health levy that they will have to pay, but there will be some additional money, and of course the more you earn the more money you will get back. Speculation and looking at any kind of consumption studies suggest that much of that money might go into investments, and much of that not necessarily domestic; it could be offshore.

Have you taken a look at whether or not you think that is the best kind of stimulative tax break, or would you prefer to see a tax break on sales tax, for example? Would that, in your opinion, have more of a stimulus? Are there any other alternatives you could suggest to this committee that we might look at and be able to recommend to the Minister of Finance?

Mr Allinotte: We have not looked at a quantitative analysis with regard to the reduction in the personal income tax. As was pointed out, we are simply commenting on what we believe would be the stimulus from our

members relative to our employees, because one of the things that keeps putting pressure on us is that as the take-home pay goes down, because more and more taxes are being levied on it, our costs increase. That cost increase impacts as competitive, dealing offshore with our competitors in the US.

Ms Lankin: Could you just explain how that works?

Mr Allinotte: To the extent that an employee has less take-home pay, which is directly affected by income taxes, they demand higher wage settlements, or increases in wages. Consequently, that increases the cost of manufacturing in the province of Ontario, and consequently our goods in the export market cost more than our competitors' do.

Ms Lankin: So if most of the manufacturing employees, let's say, are in the middle-income range, which is probably a good assessment, if they're going to be faced with fees at the local skating rink for their kids, and libraries, and all of the kinds of municipal user fees and potentially higher property taxes, which is not income-related—we see that shift happening—is that likely to put pressure on your wage packages in your plants?

Mr Allinotte: The impact of something of that nature would, but let me just comment as a tax professional for the last 25 years. Ontarians have become fed up with the Ontario government taking their money and spending it for them. If it's a question of reducing personal income taxes and installing user fees, the people in Ontario would prefer to have the choice as to what they spend it on than to send it to Queen's Park to have them spend it for them.

Ms Lankin: I think that might be true for people who have the disposable income and can afford to spend it. I guess again one of the things I worry about is the nature of progressivity of the income tax scale. We hear a lot about Ontario being overtaxed in terms of our income taxes, and I think that all of us, any person, would appreciate paying less if we could. The question is, is this the right time?

With all of the focus that you've put in your presentation on how important it is to deal with the deficit, and I agree with you on that, I think some of us wonder whether this is the right time to be spending—borrowing—\$20 billion over the next number of years to pay for that tax cut, paying debt interest on that money to pay for the tax cut, when the stimulative value of it is at the very best questionable at this point in time. We've seen no data to indicate that is actually going to accomplish what the government hopes, which it's projected to be 725,000 jobs as a result of that tax cut.

Mr Allinotte: Let me just reiterate a point that Paul made. CMA is not recommending nor discouraging the government to lower personal income taxes. We have not done a quantitative analysis. We know what we believe will be the effect on our members, and that is all that we would put forward to you.

Mr Wayne Wettlaufer (Kitchener): One of the questions that we constantly hear is the reduction of taxes, but in so far as the CMA is concerned, I would like to find out how we can increase our competitiveness vis-à-vis the United States. I believe that with OHIP and some of our other welfare schemes we are very competi-

tive with the United States, but I wonder too if by increasing R&D we could not be more competitive. I wonder what we as a government could do to encourage more partnership between business, ie, the CMA in this case, and the universities. As you know, there has been some talk of cutbacks in R&D at the university level.

Mr Allinotte: To the extent of R&D and the super-allowance, CMA would be the first to admit that Ontario, in the area of research and development, tax credit grants, is much more competitive than our competition in the US. As far as we are talking to the administrative side of it, we naturally would welcome an increase in the rate, and I'm sure that R&D would increase with an increase in the rate.

One of the things that we find is that a lot of foreign-owned companies that are operating in the province of Ontario, when they consider various aspects, one being the capital tax, if they have to invest in the province of Ontario in the nature of capital, they have to pay a tax on it. If that investment is in the area of R&D, they look someplace else for it.

As far as partnership with universities is concerned, again, to the extent of the available tax credits, business appreciates what we have now, and more of it would cause more spending in industry.

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Mr Gary Carr (Oakville South): Thank you very much for your presentation. As usual, we appreciate the effort. I had a question regarding what you'd like to see the government do. You mentioned on page 8 that you're pleased that the Harris government is reducing government spending, and your quote is "to keep staying the course." But there are other things that need to be done. I'm thinking now of WCB reform, employer health tax, labour legislation, interprovincial trade barriers. If you could recommend the next step for the government to take—and I throw four of these things out as an example. You talked a great deal about the taxation and put together some ideas there. If you could advise the government where it should focus its next effort, where would you suggest that we go while we continue this? As you know, the whole theory is to downsize the public sector while we upsize the private sector, and that's what the tax cuts are all about. In order to upsize it, the tax cuts are a part of it, but there are other things like the WCB reform. What next for this government would be your recommendation?

Mr Nykanen: I'll just make a few comments here. You focused on some of the priority issues that we see as far as investment here is concerned. When we are taking a look at something like the WCB reform, we must look at that in terms of the total picture. Our WCB rates are uncompetitive. We are very high compared to our sister provinces. So if we take a look at that itself, there are specific things that have to be done there to get the WCB viable and sustainable to ensure that injured workers will have continuing benefits.

But it's the whole picture itself. There was an earlier reference that was made to our OHIP being competitive. But let's take a look at the total payroll taxes. It doesn't matter what we call them, we are looking at CPP, we're looking at OHIP or the employer health tax, we're

looking at the WCB rates. All of these are non-discretionary taxes that you have to pay. So the focus on reducing that overall tax rate is a very important consideration.

The other part of it, in terms of initiatives, is that certainly the investment climate is very much determined by what the total business environment is. We applaud the changes in the labour laws, which were a very restricting factor for the manufacturing community. We lost a lot of investment as a result of not being able, for instance, to use replacement workers. If you can't supply and you shut the plant down, there are no jobs.

I think that many of the issues that you've referred to there are really priority issues from our standpoint.

Mr Carr: Good. Thank you.

The Chair: Mr Ford, do you have a brief question?

Mr Douglas B. Ford (Etobicoke-Humber): Yes. Gentlemen, welcome this morning. From your point of view, your perspective, where do you see that the government can cut down in the budget? We're cutting in many areas. Maybe you see another area that could be a benefit to this province so that we could create more jobs, cutting down in certain areas. Maybe that's an unfair question, but I'm asking you.

Mr Nykanen: One area certainly is to avoid duplication in sales tax collection. We've got two regimes right now, one in Ottawa, one in Ontario. Both require a huge number of people. If that was harmonized, we'd have one administration. It would be simpler for business. There would be no requirement for dual filing. That initiative by itself would save the government a lot of money.

Mr Ford: Do you have any other areas where you might—

The Chair: Thank you very much. That brings to a conclusion our time. We appreciate the Canadian Manufacturers' Association appearing before us this morning.

CANADIAN UNION OF PUBLIC EMPLOYEES

The Chair: We now welcome the Canadian Union of Public Employees, Mr Ryan. Welcome. We look forward to your presentation. We have 30 minutes.

Mr Sid Ryan: I would like to thank the committee for this opportunity to discuss the economy on behalf of the 175,000 public sector workers represented by CUPE Ontario. Joining me today, to my left, is Mr Jim Woodward. Mr Woodward is the legislative director for CUPE Ontario. To my right is Cathy Remus, a researcher from the national office.

We have decided to limit our comments to an analysis of the economic impact of the government's policies. As Canada's largest public sector union, we'd like to focus our comments on the public sector contribution to Ontario's economy and on the economic impact of public sector restructuring.

Our submission draws on our union's experience with restructuring initiated by this government to demonstrate the economic impact in as clear a way as possible.

This government has bought into the myth that the public sector is ineffective and inefficient, while the private sector is responsive and efficient. At best, such an assertion is nothing more than a generalization. It's not difficult to prove that it's simply not true.

Studies of delivery of health care in Canada and the United States have shown how much more cheaply our public health care system operates. In Canada, health care costs 10% of the GDP and covers everyone; in the US, 14% of GDP goes to health care, while millions of low-income Americans have no coverage. Our members are constantly pointing to other examples of how they can do the job more effectively and efficiently than the private sector contractors.

The job creation strategy outlined in the Common Sense Revolution is based on the notion that private sector jobs are somehow preferable to public sector jobs. Inherent in this notion is the belief that the government's balance sheet is all that matters. Public sector and private sector jobs both make valuable contributions to the economy as a whole; we can't afford to dismiss either.

Job security in the public sector continues to be threatened by layoffs, reductions in hours, jobs lost through attrition, contracting out, use of volunteers, and mergers and amalgamations. Job security enables people to plan their lives, guard against financial insecurity and contribute to economic growth. Without job security, people are reluctant to demonstrate consumer confidence and make large purchases or investments. The effect is to slow down economic recovery.

Perhaps public sector workers would feel more secure if we believed that private sector growth was going to create employment opportunities for us. Instead, we know that private sector job creation will not equal the public sector job cuts, a fear confirmed by a senior economist at the Conference Board of Canada, quoted in the Report on Business, February 1996.

Services and programs that are provided by the public sector are ones that people need; for instance, health care, education, income support when unemployed, employment security etc. People still have to pay for service when it is privatized, along with the extra cost to cover the profit of the firm providing the new service.

In many areas of Ontario, the public sector is the major employer. These economies will be devastated by the spending cuts outlined in the CSR. In Peterborough, the major industry is education, and 400 hospital workers have been threatened with job loss. In Thunder Bay, government services is the main industry. Hospital restructuring there will take approximately \$30 million out of the hospital spending in the area. Let's look at North Bay. Their top 10 employers are public sector: CFB North Bay, North Bay general hospital, Nipissing public school board, Nipissing Catholic school board, Ontario Northland Railway, North Bay Psychiatric Hospital, city of North Bay, Canadore College, the Transportation ministry and the Correctional Services ministry.

A study by NUPGE and OPSEU analysed the economic impact of the spending cuts on North Bay. It predicts that 421 private and 650 public sector jobs will be lost, and governments will lose \$19.2 million in revenues—\$10.4 million at the federal level, \$7.1 million at the provincial level and \$1.7 million at the municipal level. Because this study was revised in September 1995, these numbers do not include the impact of the reductions at CFB North Bay, the \$17-million impact of the Canada

health and social transfer, the \$2-million cut to social assistance and the 20% cut initiated by this government to the MUSH sector.

1010

The government's economic predictions rely heavily on growth and job creation in the private sector. The CSR talks about "removing barriers to growth." We believe that the attack on the public sector economy outlined in the CSR is going to have a severe impact on the very sector that the government is promoting as its "engine of growth."

Every cut in government spending is offset by what the government loses in terms of lost tax revenue and having to pay more for income support. It is also offset by the impact on the rest of the economy; for example, on private sector grocery stores, car dealerships, landlords, who in turn also pay less for taxes and also may cut back on their own spending.

The impact on the private sector has not been fully analysed in the government's economic plans. The following are some examples that CUPE has developed of how the spending cuts in the public sector will have a negative impact on the private sector.

Education cuts: The November economic statement announced a cut of \$400 million to school boards. We now understand that the number represents cuts to December 1995 only. The cut for the 1996 school year is closer to \$1 billion.

According to a leaked ministry document, the proposals include cutting \$76 million from the custodial and maintenance budgets through a 10% cut to the salaries and benefits portion of the provincial grant. Two ways of implementing this cut would be across-the-board cuts to salaries and benefits, and layoffs and staff reductions.

If an across-the-board cut is chosen, we calculate that the average custodial worker will lose \$3,621, not including cuts to benefits. This represents, for example, the cost of six months' worth of groceries or two years' worth of heating costs, or one quarter of the cost of a new car, or approximately three months' rent for a family. The wage cut would also mean lower tax revenues for the government from income and sales taxes.

Should all boards decide to reduce staff positions, we calculate that the \$76-million cut would translate into 1,730 jobs lost across the province. That's 1,730 people who would be collecting UI, welfare or perhaps a pension and would likely lack the consumer confidence that the government is counting on to boost economic growth.

Several universities have developed economic impact studies that show how they contribute to local economies. The University of Windsor, like other Ontario universities, is preparing for a 15% transfer payment cut, the equivalent of \$11.6 million. Staff have been told the cut will come out of salaries, either in the form of wage rollbacks or layoffs. This cut translates into \$11.6 million less being spent by university staff. The University of Windsor is the fifth-largest employer in the city. It contributes more than \$100 million per year, as well as industrial, business and community service resources.

During a recent study on university funding in the province, several groups representing business interests spoke about the positive economic impact of local

universities. For example, members of the Peterborough business community pointed out that Trent, with 700 employees, is one of the largest employers and that its economic impact on the area is in excess of \$155 million.

In the area of infrastructure and housing cuts, in July the government announced the reduction of \$73 million in the Canada-Ontario infrastructure works program. This took \$73 million out of the construction and trades industry for this year.

The construction industry will also feel the impact of the public housing cuts, with lower demand for public housing construction. One contractor in Toronto had to cancel plans to hire 1,000 construction worker jobs when public housing projects were cancelled in July, and that was only for six of the 385 cancelled projects. Unemployment among some of the construction union locals was at 50% to 60% at the time.

Social assistance recipients account for over 40% of the private sector market in Ontario. Landlords will likely feel the effect of the social assistance cuts, especially in areas with higher vacancy rates.

In the area of social assistance cuts, because lower-income people spend more of their money than higher-income people, consumption is enhanced when the incomes of lower-income households are increased. According to Metro Campaign 2000, the government's welfare cuts will cost a lone parent with two children under 12 on social assistance almost \$3,000 per year. That's \$3,000 less on necessities like food, clothing and rent.

There are over half a million people in Ontario on social assistance and the economic impact of this will be tremendous. As well, the housing cuts and welfare cuts will together force people to spend an even greater percentage of their income on rent. This leaves many more people with less money for other economic activity.

According to the Social Planning Council of Metropolitan Toronto, the welfare cuts will take approximately \$250 million annually from the incomes of welfare recipients in Metropolitan Toronto. People on social assistance have to spend all the money they receive just to survive. So this will be a direct loss to landlords and local businesses, who will find their spending capacity reduced. There will be a drop of hundreds of millions of dollars spent throughout the city.

In the area of hospital closures, the hospital restructuring report prepared by the Metropolitan Toronto District Health Council is another example of the kind of restructuring being considered. It proposes closing 11 hospitals, eliminating approximately 3,000 jobs, and we believe indirectly 2,200 private sector jobs. Obviously, this will have a huge impact on the greater Toronto area, which will also be feeling the impact of the cuts on university and school board employees, social assistance recipients and the government's own workers.

In small towns across Ontario, hospital closures will also be felt in the local economy. For example, public pressure has kept Minden Hospital in the Haliburton region open through recent cost-cutting exercises. Now it is under more pressure than ever to close. If Minden closes, ambulance patients will have to be transported 18 miles to the Haliburton Hospital, at a greater cost in both

financial and safety terms. But more important is the cost to the community. The local economy is largely seasonal, resort-based. Already unemployment rates are high. In many cases, hospital workers are their family's only breadwinner, and in many cases they're women.

Increasingly, public sector restructuring initiatives simply don't make economic sense, even aside from the negative impacts on the private sector described above. Policies such as these only make us more sceptical that the government's economic plan will achieve its stated objectives. The following are examples of restructuring initiatives that we consider economically unsound: child care cuts; interventions in community-based decision-making; the privatization of municipal services; shared services; and GTA restructuring.

CUPE agrees that average working Canadians are paying more than enough taxes and shouldn't have to pay more, unless of course they get more in terms of government services instead of less.

The problem is that others, wealthy individuals and profitable corporations, are not paying their fair share. The numbers speak for themselves. Tax loopholes help 98,000 wealthy Canadians with incomes over \$100,000 pay no income tax. At least 20 Canadian millionaires pay less than \$100 in taxes. Canada's top five banks got \$2.8 billion in tax breaks during the 1980s but laid off 12,000 employees in the same period. The federal government is owed \$40 billion in deferred taxes, and corporations are not even required to pay interest on this debt.

The government's proposed tax cut will benefit those very individuals who are already not paying their fair share. The proposed cut is totally regressive. As pointed out in the OFL submission to this committee, two thirds of the total value of the tax cut will go to the top 10% of tax filers. A low-income Ontarian in the \$15,000 to \$20,000 range will receive a \$217 reduction, which is a paltry 1.2% of income, while a \$125,000 earner will receive a tax cut of \$5,087, which is 4.67% of their income.

We repeat the example provided by the Canadian Centre for Policy Alternatives to this committee: "A single millionaire will receive a tax cut of \$63,745. This will eat up the entire savings the Harris government made by cutting the welfare benefits of 17 single parents (mothers with two children). In other words, 51 people were impoverished by this government to pay the 30% tax break for one rich business executive."

The tax cut will be expensive: at least \$20.1 billion over the next five years. All of this money will have to be borrowed when deficit reduction is supposed to be a priority. Even government supporters are now questioning this proposal, as the impact on economic revenues would be huge. An early analysis published by the Toronto Star calculated that the combination of the expenditure reductions and the tax cut will actually cost low-income people more than \$900 while increasing the income of the very wealthy by more than \$25,000.

We believe that growth will not occur if the tax and spending cuts described in the CSR and the July and November economic statements are implemented. Furthermore, the government's balance sheet will also not be improved to the extent that it would if the government

adopted a different approach. Furthermore, we would argue that there is no solid evidence that these provisions would work as planned. In other words, we're all engaged in a high-stakes economic experiment. Ontario is not Alberta. In Alberta, cuts were made at a time of rising oil prices and expansive growth. In Ontario, the cuts are starting at a time when we're slipping back into recession.

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The CSR cites New Zealand as a place where similar economic reforms have revitalized the economy. When the Premier uses words like "fiscal crisis," perhaps he's invoking New Zealand's near-fatal crash with the famed "debt wall." Not only was New Zealand never in danger of hitting the debt wall, but the numbers there speak to the results of that experiment. Reagan's America and Thatcher's England also fail to offer examples of the success of these policies, except for the very wealthy.

I want to go over the summary of the Informetrica analysis which was provided to you by the OFL submission. According to the CSR, restraint leads to economic growth. According to Informetrica, "Not now, and by itself, maybe never." With the tax cuts, the July and November economic statements will cost just under 100,000 jobs across the country. Without it, the CSR will cause the loss of more than 150,000 jobs by 1998. The province's growth will lose 0.5% in 1997, and more in 1998. This translates into 30,000 jobs in each of 1996 and 1997.

Excluding economic effects, the government policies will take \$16 billion off Ontario's debt by 1999, far less than what the government is predicting. The current debt is approximately \$80 billion. When economic effects are included, even the \$16 billion is unachievable.

The strategy chosen is unlikely to be successful because it cannot produce major reductions in interest rates and it cannot really affect investor decisions.

Lower interest rates over the long term are key for economic recovery. CUPE agrees with the economic statement when it says that we have to get Ontario out from underneath the burden of rising interest costs. But we disagree with the government when it argues that the only way to stop the growth of interest rates is to stop overspending. The fact is that we are not going to solve our debt problem until the real rate of growth, after deducting the rate of inflation, exceeds real interest rates. The government's policies are not going to create growth and there is no reason to believe that interest rates will come down. Therefore, we will continue to have a debt problem.

We encourage the government to look at the alternative economic model proposed by the OFL in its submission to this committee. We believe these policies will promote growth while preserving public policies and a strong public sector economy.

We also support Informetrica's call for a report on performance implications of the government's actions, including full access to underlying information and assumptions. Such a report should be released concurrent with the provincial budget.

Fully informed public discussion of economic policy is key to ensuring successful strategies. Bill 26 takes us in

the opposite direction, concentrating more power over important economic and restructuring decisions in the hands of the government. Excluding the public from these discussions will only increase the scepticism about the government's plan and continue to stifle consumer confidence.

Finally, we would like the government to either acknowledge and restore the role of the public sector in its plan for economic growth or to fully disclose the true economic impact of public sector downsizing on the economy as a whole.

I'd like to thank you for taking the time to listen to our submission.

Ms Lankin: Thank you for your presentation. I want to start off where you ended up, talking about supporting Informetrica's call for a report on performance implications of the government's actions and including full access to the underlying information and assumptions. We're here today in a pre-budget consultation hearing and I'm wondering if you can tell me, were you provided with any data or information from the government for these hearings that gave you any sense of medium- or long-term projections on revenue or expenses or deficit numbers, anything like that?

Ms Cathy Remus: We worked with the three public documents: the Common Sense Revolution document and the July and November economic statements, and nothing more than that.

Ms Lankin: Right. The point that I'm making is that in every other year when you've come forward to participate in pre-budget consultations, you've been provided with base documentation which allows members of the public to have some informed public input into this process, and members of the committee to engage in some informed discussion with people coming forward with advice. That has been totally cut out this year. There has been no information provided other than what is in the public documents that are out there, which is quite standard.

I was interested in your section on taxation. When I put it all together, when I look at the cuts to welfare, the freeze on minimum wages, the capping on pay equity, doing away with proxy pay equity for the lowest-paid women, the fact that with the introduction of user fees, low-income and middle-income people are probably going to be paying out more than they're going to be getting back in the tax cut, it seems to me that it's pretty clear that the effect, if not the intent, of this government's actions will be a major redistribution in wealth.

Do you see anything in that scenario that is in fact going to be stimulative for the economy and lead to the projected 725,000 new jobs being created that the CSR predicts?

Mr Ryan: No, we don't; actually, quite the opposite. It's very interesting. As of late, we began to get calls in CUPE from business people, particularly in York region. The small business community is getting very active working with the Coalition for Social Justice and the CUPE locals. Small businesses are calling in saying, "We can now understand what the unions and social assistance recipients were complaining about with these cuts. Our profits have dropped dramatically in York region in the

last number of months as a result of the cuts to social welfare recipients." So that 21% cut, people are now beginning to see where it's affecting them in their own communities. That's not surprising.

Myself and our national president, Judy Darcy, are travelling all over Ontario, but in particular we've just come through a leg of northern Ontario, where we're hearing it left, right and centre from small business people that the economy on Main Street Ontario is really being adversely affected by all of the cuts, the layoffs, particularly public sector workers.

I just did a trip through North Bay. They've stopped spending. As I've indicated in our brief, a large percentage of the workforce in North Bay is in fact from the public sector. The talk of layoffs, the threats of downsizing, privatizing, contracting out have scared people. They've stopped spending right across the province. There's no stimulus being provided whatsoever, and if we ever do see the benefits of the Common Sense Revolution, it won't be in our time, I don't think.

Mr Wettlaufer: We heard last week from the economists with the Ministry of Finance that if we had not carried through on the tough positions that we had up to this point in the first eight months of our administration, we could be paying up to a quarter or a half per cent extra interest on our debt. That equates to \$250 million or \$500 million.

If government spending increases over the last 10 years have been so beneficial to the economy, why do we have this high unemployment level? We heard the previous government say that they were going to spend their way out of the recession. We saw the previous government to that increase spending at dramatic levels at a time that the economy was already doing very well, so much so that we found that when the recession began hitting in the late 1980s, the Bank of Canada was still fighting inflation with high interest rate policies.

Government spending, we know from the experience of the last five years, only promotes short-term jobs. You have attacked much of what we've done here in your submission, even to the point that you say, "Excluding the public from these discussions will only increase the scepticism about the government's plan and continue to stifle consumer confidence." My understanding of the purpose of public hearings is that we encourage the public to come in and give us their suggestions about what the government should do. I don't see any concrete proposals here. You have suggested we maintain much of what has been done over the last five years. Given that the people of Ontario don't want us to, what would you suggest we do, other than what you have here?

Mr Ryan: There are about four questions in there. The first one, we talked about, why have the policies over the last four, five, 10 years not worked in terms of reducing the debt? I would point you to the fact that Mulroney, since 1980, has embarked upon a program very similar to yours, slashing and burning and cutting. Mulroney has staked his reputation in the 1980s and through the 1990s on the very fact that they would cut the debt. So we've had 10 years or 12 years of cutting and we still haven't reduced the debt. In fact we've probably doubled the debt load since the Tories took over at the national level. It continues now with the Liberal government.

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You take a look at Reagan's policies, which were very similar to what you're following here in Ontario. He decided he was going to get into trickle-down economics and give a tax break to the wealthiest people in the United States, and he increased the unemployment rates over the period of time that he was in office and quadrupled the debt in the United States. Margaret Thatcher, I was just in England not so long ago taking a look at what she did to that country. She increased the unemployment rate by 2.5% over in Britain and she tripled the debt in the United Kingdom.

Why do you think that your Common Sense Revolution's going to be any different in Ontario? You're doing exactly the same thing. If you're serious about the debt, as you like to tell us you are, why the hell are we giving a 30% tax break to the richest people in the province? Why would you be giving back \$4 billion when you're saying that revenue is a problem? Why would you be giving back \$4 billion even when the Dominion Bond Rating Service is telling you it's ludicrous, it's crazy, it's off the wall? If the debt is such a major problem, why give back \$4 billion, and in any event, why would you give it back to the richest people in the province? Surely, if you want to give \$4 billion, if you have that to throw around, let's give it to the low-income people in this province who will spend the money, as we indicated in our brief, on Main Street in Ontario, and that's where you'll start creating some jobs. Give it to the people who spend it on a regular basis, on a daily basis to survive.

Mr Kwinter: I was interested in your comments and I'd like to get your reaction to some figures that I have. The government makes a big issue of what they call the 10 lost years and that government employment has gotten out of hand, government expenditures have gotten out of hand, when in fact if you take a look at 1984, the last year of the Conservative government, the number of employees working for the government was 81,008, with an economy that was half the size of what it is today. The figures given out by the government itself show that the staff strength as of March 1995 is 81,251, so virtually the same. In 1984, when we had an economy that was half the size, we had the same number of employees working for the government under a Conservative government than we have now with an economy that is twice the size. Interestingly enough, in 1984, the number of people working in the health sector was 12,263; the number working in the health sector right now is 11,192.

So we have a situation where the government is believing its own rhetoric, is out there making these noises when the facts do not match the reality, the facts that since 1968 to 1985, the government had continuous years of deficits. I'm sure you have looked at these figures, and do you have your analysis of them?

Mr Ryan: You're absolutely correct. Government is in fact about the same size as it was 10 or 15 years ago. I think what's probably even more interesting than the figures you're citing today is in Alberta. Given all of the slashing and the burning and the cutting back of the public sector out in Alberta, on a per capita basis they still have a higher percentage of public sector workers in Alberta than what they've got here in Ontario today, even

after the revolution that Klein is supposed to have implemented on the public sector.

So in Ontario the public sector is not out of whack, by any stretch of the imagination, with the private sector, and for the level of services that we are providing, which by the way the public are demanding. This is not something that government just dreamed up itself. This came from pressure from the public over the last 10 or 15 years to implement programs and services, which we take great pride in up here in Canada. It's not the United States. We take great pride in the programs that we have.

We're proud of the figures that we've got. We don't think the numbers are completely out of whack. That's not to say that we don't believe, however, that we can't sit down and restructure the public sector. There's a way of doing it, and they have found a way out in British Columbia, looking at the health care sector in itself. So there's room for restructuring and rejigging the public sector, no question. Nobody's arguing that we have the status quo, but we do think it should be done in a much more humane way than it's being done and a way that doesn't impact adversely on the economy the way the Conservatives are impacting, plus the numbers, just to finish off what you indicated, we don't think are greatly out of whack today with what they were 10 years ago.

The Chair: Thank you very much. That concludes our time together. We thank CUPE for coming in and making your presentation to the committee this year.

TORONTO INTERNATIONAL FILM FESTIVAL GROUP

The Chair: The next group is the Toronto International Film Festival Group, which has been rescheduled from an unfortunate interruption on Wednesday afternoon. I'm very pleased that you've been able to come back and join us again this morning.

Mr Piers Handling: Delighted to be here. I think there are a couple of members who heard this last year, Mr Kwinter and Mr Carr. We're going to be going over much of the same material, but we have a very specific request at the end, so hopefully this won't be too boring for you as we go through the first 15 minutes of our presentation.

My name's Piers Handling. I'm the director of the Toronto International Film Festival Group, and to my left is Allison Bain, who is the director of public affairs.

I think everyone on the government these days is becoming increasingly aware of the importance of the arts, just in terms of our economic impact as well as what we add to the quality of life in this city and in this province. A recent Toronto Arts Council study estimated the economic impact of the arts to be \$2 billion in the city alone. These are pretty impressive numbers. However, the numbers are so large that sometimes individual stories get lost and so today we would like this opportunity to tell you about our organization.

Ms Allison Bain: Although we're a cultural organization, what we wanted to talk about today is our economic impacts. The province is one of our major investors and we'd like to share some of the results of that investment. For an overview of our organization we distributed our

marketing kits, which break down all three divisions of our organization.

The first division is the film festival, which runs for 10 days every September. Last year we celebrated our 20th anniversary, and in that time we've risen to become North America's premier film festival. Internationally we're perceived to rank only behind Cannes. We're the second-largest public film festival in the world, and more than a quarter of a million people attend our event.

Mr Handling: The second division of the organization is Cinematheque Ontario, the provincial cinematheque. It celebrated its fifth anniversary last year, having begun operations in 1990 at the request of the province. Accordingly, Cinematheque Ontario's operations are governed by a memorandum of understanding with the province to provide broad-based support to the film industry. Last year, Cinematheque Ontario screened over 550 films to the public, including nearly 100 Ontario works.

Ms Bain: The third division is the film reference library, which operates as a public trust and protects, preserves and makes accessible the province's own collection. This is an invaluable collection that you own and it's used extensively both locally and internationally by students, researchers and the media. As many collections across this province are closing or slashing their services, in many cases the province's collection is the only available resource.

Mr Handling: Together, these three divisions—the festival, Cinematheque Ontario and the library—form what we call the Toronto International Film Festival Group. The group operates on an annual budget of \$6.3 million. We're supported by more than 100 corporate sponsors and thousands of members. Since 1990 we have very proudly doubled our private and earned revenues and now raise nearly \$4 million from the private sector each year. We are the most self-sufficient organization of its kind in the world and I'll return at the end of my submission to how other events of our size are funded.

Ms Bain: We receive about 25% of our overall revenues from the provincial government. Last year the Cinematheque-library divisions received about \$1 million; the festival received about \$400,000. Just to put that in perspective, that is less than half of what the province of Quebec supplies its festival and cinematheque. The return on your \$1.4-million investment is annually \$30 million. We distributed copies of our economic impact study to you, which breaks down that impact, but we want to touch on a few highlights.

Each year we generate more than \$7.5 million in tourism revenues, and each year we continue to build on that number by launching new tourism initiatives.

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Mr Handling: Tourism is obviously a spinoff benefit of what we do. At the same time the Festival Group operates at no direct cost to the government. Other programs are at no direct cost to the government; an example is our southern Ontario film circuit which tours films across the province. This allows people living in smaller towns the opportunity to see previously unavailable films including many Ontario productions. In fact, Ontario productions do very, very well on this circuit. In its inaugural year we will generate about \$100,000,

money that goes directly back into our Ontario film industry in this circuit. The bigger picture is that we're now servicing people across the province and building new audiences for Ontario film.

Ms Bain: One of our primary mandates is to support the film and television industry and our activities are essential to that industry now. We're a huge marketing machine and our activities directly result in the production and the sale of Ontario film. We're North America's premier film market and each year we bring about 2,500 film professionals into Toronto.

At the festival there are essentially two types of people: those selling films, usually Canadian, and those buying films, usually Americans, other international buyers. We give the Ontario film industry the opportunity to get access to the world's top buyers every year and sell their products.

Mr Handling: The Festival Group also sells this province through its annual media impact of \$3.3 million, believe it or not. We generate huge marketing for Ontario as a world-class destination by hosting more than 600 journalists each year. To put that in perspective, the World Series when it was hosted here in Toronto accredited 400 journalists.

We generate a profile for Ontario unlike any other event. Coverage ranges from television, Siskel and Ebert, Entertainment Tonight, to key newspaper coverage in London, Paris and Tokyo newspapers. This coverage isn't just film-related. Once the festival brings in these journalists, we promote the rest of the province. They're toured through other facilities and arts organizations and each year we even bus contingents down to Niagara Falls for the day. This pays off in major travel articles ranging from features on Ontario's art galleries to travel articles on camping in Algonquin Park, which is what one journalist did after last year's festival.

Ms Bain: The province is aware of our impact. Last year when it hosted the Barsoum Smart 1995 conference it asked us to help market its registration. When the province was attempting to encourage Walt Disney to open a studio in Toronto it came to the festival because we were already hosting a large delegation of Walt Disney executives at our event. We helped aggressively market Walt Disney and aggressively market this province and we demonstrate that Ontario has a strong film infrastructure in place which attracts organizations like Disney.

Mr Handling: That infrastructure is obviously creating jobs. Our organization alone provides 462 person-years in employment. We are an important trainer and employer in the cultural sector, a sector that accounts for nearly 10% of all Metro jobs.

Ms Bain: Although we're very proud of our accomplishments, we wanted to take the last few minutes to tell you about our current situation. Unlike the government, our fiscal year began November 1st so we've had to maintain operations since November without any funding commitment from the province.

Mr Handling: We've had some leeway in terms of freezing expenses for the festival because the festival doesn't happen until September. As that funding is provided by the OFDC and their future is currently unknown, we have had no indication of the festival status.

Ms Bain: The Cinematheque and library divisions, however, are a year-round operation so we had to begin operations November 1. So for three months we've been incurring a monthly debt of about \$150,000 to take care of the province's own collection, with no funding commitment. Our board agreed only to do this because we have a long history with the ministry. They've always been wonderfully supportive, been our true champions at times, and are always very professional.

Mr Handling: However, as we all know, the ministry is facing really tough times. Last week the ministry directed us to plan retroactively for a 10% cut in Cinematheque and library operating funding. Although that will be difficult, we know that times are difficult.

Ms Bain: However, a 10% cut is not the reality. Since the first year of Cinematheque-library operations, provincial operating funding has flowed from two sources: \$800,000 comes directly from the ministry and the other \$200,000 has flowed through the OFDC, and internally the ministry has referred to it as "survival funding." We've received that survival funding since our first full year of operations, so if you ignore the semantics, it is operating funding.

Mr Handling: Last week we were told that the \$200,000 survival funding will probably be eliminated. On top of that, they asked us to plan for a further 10% cut on our \$800,000 operating funding. What sounds manageable, a 10% cut in our operating, is in reality a huge blow. In comparison to last year, we are being advised that we will be losing \$370,000 from the province. In hard dollars, that's a 37% cut for us.

Ms Bain: This comes at a time when the federal government is also cutting its programs. This year Ottawa completely eliminated its \$200,000 operating grant to our organization. Now we've lost \$570,000 from last year's budget, and that's before anybody has looked at the festival. How do you maintain your programs when you've lost a third of your revenue? Well, you don't. You're forced to cancel your programs, and that drastically decreases your ticket revenue and it drastically decreases your corporate sponsorship. If we lose a third of our programs, it will be impossible for us to maintain our \$4 million in private fund-raising.

We understand the current fiscal realities the government is facing. All we're asking is that our 10% cut be made on the provincial appropriation of \$1 million and not on an \$800,000 figure. We're willing to take a hit, but it should be a fair hit.

Mr Handling: I think you can see that the results, both cultural and economic, of our work at the festival and the Cinematheque is beyond doubt. We have proven that we are one of the most fiscally responsible arts organizations in the province. In fact, we don't run a deficit and haven't for years. We feel that we give the people of Toronto a populist festival and a significant return on their investment. For every dollar and a half invested in us, we return \$30. We're also essential to the marketing and promotion of Ontario-produced films.

We're one of the most important cultural organizations in Canada, with a reputation that goes around the globe. The other major film festivals in the world, Cannes, Berlin and Venice, for instance, are virtually entirely

state-supported and their budgets are significantly higher than our own, ranging from \$8 million to \$12 million. We also add a great deal to the cultural life of this city and province.

As we're moving into the next century, telecommunications in the various industries that supply media materials, film and television are becoming increasingly important. We're a part of that industry and play an important role. It's my impression that Ontario wants to back those industries that will move us successfully into the next century.

Thank you very much for listening to our brief. We'd be happy to field questions on what we have talked about today and any other questions you might have of the organization, of the two of us.

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Mrs Margaret Marland (Mississauga South): Good morning and thank you for being here. Certainly the track record of our party in this province has been one of very strong support for your organization, including the Ontario Film Development Corp as well. I can certainly recall many years of fighting for the reinstatement of the grants to both organizations. We do understand fully the impact and the contribution you have made and we commend you for your work and the success you have achieved.

When you're looking at where we are today in terms of our economy and what you have achieved in the last five years in terms of your corporate sponsorship, do you see the possibility of expanding that corporate sponsorship because of the position the government has been placed in with the deficit and the accumulated debt?

Mr Handling: Yes, we do. Obviously, we're doing that increasingly, more and more. I think every year, when you look at our overall budget, the private sector is stepping to the plate in a way it hasn't in the past. At this point in time, unfortunately, it's just compensating for government cutbacks, so we're in a position where, as our private money increases, our government money is decreasing, so our overall operating budget is really going nowhere, it's flat.

We're also concerned that as we ask the corporate sector to step more and more to the plate there's obviously a max-out point there as well. There are only so many corporations that we can service within the organization. We lead the world in terms of corporate sponsorship. I go to festivals all around the world and there's no question that this film festival is a model for private involvement in an arts organization. We have over 100 corporate sponsors. Just trying to keep those people happy is a great problem. They're obviously going to be overwhelmed as well in the next year or two by other arts organizations going to them.

It's a challenge. We've met that challenge. We're certainly more than prepared to do it, but it is a partnership between the festival, government and private industry, so we're certainly looking for the government to be there. You have in the past, and we're hoping to maintain it to the best of your ability.

Mrs Marland: Have you learned from your corporate sponsors that there is a tremendous benefit for them in terms of how they're perceived as corporate citizens

because they're fulfilling a role that is so badly needed, especially when government's ability is depleted by a \$9-billion interest on the money that we owe already and the fact that we are headed into a worse deficit situation for the next five years, even in spite of all the cutbacks our government is making?

Mr Handling: Somewhat. They're not totally philanthropists, though. In fact, far from it. The money they give to us as an organization is business oriented. They're looking to get some kind of bang for their buck. There's no question about that at all. They're not just giving us money to be good corporate citizens. They're very demanding. I've sat in on those meetings with corporate sponsors. They're looking for profile and they're looking to reach an audience that they think the festival and Cinematheque can give them. Obviously, we do at that point in time. It's also a very competitive marketplace out there. We are up against some of the other major arts organizations in this province just in terms of going to corporate sponsors.

Ms Bain: It's also important to differentiate the festival and the Cinematheque library operations. The festival has proven that it's very attractive to corporate sponsors—huge profile, it's sexy. On the other hand, corporate sponsors are not attracted to the Cinematheque library, and what leeway we've made in raising private funds for those operations has frankly been made on the back of the festival. Something like a provincial Cinematheque film and reference library is never going to be attractive to a corporate sponsor, and there's no like organization in the world that exists without government support.

Mr Bruce Crozier (Essex South): Good morning. I'd like to get some sense what led up to the financial position you're facing today. Ms Marland pointed out that their party was very supportive of you in the past. Let's go back to last spring, early last summer. What kind of indication did you get from the now government as to its support of you at that time, prior to the election?

Ms Bain: The only indication we've had formally has simply been, "Wait until the April budget," because the ministry has been put between a rock and a hard place.

Mr Crozier: No. I'd like to go back prior to last spring when as individual parties we were coming to you. What was the support of the Conservative Party prior to the election? What was their indication to you?

Ms Bain: We've had no formal indications ever. We've had a long history of all three parties recognizing the work we do and the importance of that. We were very honoured that Premier Harris opened the festival this year, but we've had and continue to have no hard indications of that support.

Mr Crozier: When the Premier opened the festival, I assume he gave some indication of how important the festival is and the part that it plays in Canadian and Ontario culture.

Ms Bain: His remarks were very kind.

Mr Crozier: Subsequent then to the government taking office, did you have any consultations with the minister? Did you have an opportunity to sit down with the minister responsible and discuss your concerns, your contributions, your future outlook?

Ms Bain: We met informally with the minister during the festival, because she too spoke. We had a meeting with the deputy minister, Naomi Alboim, and the assistant deputy minister, but at that time—that was several months ago—we didn't receive any hard indications. Last week, when we got directed to look at a 10% operating which in hard dollars is a 37% cut, that was the first specific direction we had been given. That was last week and our fiscal year began November 1.

Mr Crozier: Unfortunately, you're not alone in this shell game that's being played. The government has told municipalities, for example, and has told the public that municipalities are only receiving a 2% cut in their funding, but that's the total funding they receive from all sources and which in many cases has resulted in excess of a 20% cut. So you're not alone in the fact that they're trying to convince you that it's only a 10% cut. I appreciate that you've made that quite clear, that this is substantially more than a 10% cut, and I agree that we should lay the cards on the table and say, really, how significant it is to you.

I come from rural Ontario and I'm pleased to see the kind of the outreach you have in Ontario. I would like to give you a minute or two of opportunity, if you could again emphasize the importance that it's not just, let's say, Metropolitan Toronto, where the festival is held, that benefits from your organization, that culturally all over Ontario we benefit from that. I'd just like you to emphasize that a bit.

Mr Handling: Yes, we're very aware of that. Thank you for bringing it to the attention of the rest of the committee. Obviously the festival is a Toronto-based organization, Toronto oriented. There are lots of questions as to what happens to the films that come to the festival and why they can't tour the province, so this initiative is designed specifically to do that, to go out to small communities that never get a chance to see these kinds of films. There are a number of them in northern Ontario; there are about 15 of them. We're starting a circuit here in southern Ontario which will link with the northern circuit. We have six cities up and running and we're signing up more cities as we speak.

The material that gets toured is essentially foreign film as well as Canadian film. Ironically, the Canadian films are at the top of the list in terms of moneys returned to distributors. They're the most popular films, which flies in the face of conventional wisdom, but we're really thrilled about that.

Essentially, we're involved in a circuit of about 20 cities outside of Toronto on a regular basis, and these are all community-oriented organizations. We don't go into those cities and start them at all. We're proactive, but the communities themselves run and control these organizations. We're just a facilitator, we help them in terms of booking films, and we act as an interface between the distributor and these communities, but they're completely locally drawn.

Ms Lankin: There are two areas I wanted to ask you some questions about. Firstly, to pick up on some of Mrs Marland's questions around private sector sponsorships, corporate sponsorships, you indicated that you suspect that in the near future those dollars are going to be more

difficult to come by because of the competition from a number of cultural and arts organizations that have been asked this question by members opposite when they've come before us and that are out there trying to compete for that private sector dollar.

You also mentioned, Allison, that as you cut back on your programs, you know that you're going to lose some portion of that \$4 million in corporate sponsorships you have now. Could you explain that to me and the relationship between the programming you do and the loss of operating dollars and your ability to attract private sector donations?

Ms Bain: Sure. Already, in the face of anticipated cuts, we've lost 30% of our screenings at the Cinematheque. Obviously we just lost 30% of our revenue and 30% of the corporate sponsors who have in the past paid to attach their names to those programs. We run such a lean organization that every time we take a cut, it directly affects the service. So last year, for example, we lost the small project fund, the Perspective Canada suite, at the festival because an industrial service we offer Ontario filmmakers was cancelled. There's always a direct relation to the moneys. Programs such as the southern Ontario film circuit, we operate those at absolutely no cost to the province and we didn't ask the province.

However, it's important to remember the only reason we can do programs like that is because we have the infrastructure in place. By supporting our operating, it gives us the leeway to generate an additional 10 programs that don't cost anybody anything. For example, in the southern Ontario film circuit, the \$100,000 we project to make this year, we won't see that, it will go directly into the hands of the artists and the Ontario film distributors. **1100**

Ms Lankin: The other area I wanted to touch on is the bottom-line economics of what you do. I had the opportunity, when I was in Economic Development and Trade, to really start to develop an appreciation for the economic return from projects like the festival, from cultural tourism in general and, through some of the sector strategies that were worked on and programs like OFIP and others out there, saw that to cut in those areas actually would create an economic loss to the government's revenues, let alone the impact out there in the private sector.

I'm wondering if your analysis has provided these numbers, or if you could for us, with the projected cuts of the 37% that you're facing. What will that mean in terms of lessening the economic return of the activities of the festival? What will it mean specifically to government revenues? If you don't have those numbers now, is that something perhaps you could work on to provide the committee?

Mr Handling: Yes, certainly. We don't have the numbers down. We have no idea what that will mean to the overall economic impact we have at this point in time. The cuts are on the Cinematheque side of the organization, the significant cuts, the 37% cut. Cinematheque has less of an economic impact in the festival, obviously. As a result, it requires more government funding to survive.

I think what we should also stress in front of the committee is the interconnectedness of the two organiza-

tions, or what we're talking about, the Cinematheque and the festival; the fact that the Cinematheque has allowed the festival to grow and become as successful as it has become. It allows us to expand our activities beyond the 10 days of the festival to year-round activities, which are obviously more attractive to corporate sponsors, gives us a presence in this city and in this province on a year-round basis as opposed to a 10-day event.

Ms Bain: We have so little leeway in terms of where we can cut. Obviously, you try to hold your core programs, which are the public screenings. What we're grappling with right now is if we have to take that huge a cut in our budget, we have to look at the industrial services. Those are the things that don't pay for themselves. When the 2,500 most important film buyers in the world come to your event, that costs you. So, unfortunately, it's probably going to be places like that where we'll have to look, those services that are directly responsible for the production and sale of Ontario film, which are generating huge dollars for the province.

Mr Handling: Maybe we should also underline the fact too that a cut to the Cinematheque is also a cut to the festival because of the interconnectedness of the two organizations. So losing 37% on the Cinematheque side is going to affect the festival in some way. We have to lose that money. We have a common budget, so we're looking to trim everywhere.

The Vice-Chair (Mr Tim Hudak): I'd like to thank Mr Handling and Ms Bain for your presentation.

SUN LIFE ASSURANCE CO OF CANADA

The Vice-Chair: The next delegation is Sun Life Canada, Don McIver, please.

Mr Don McIver: I have copies of a handout being made available to you. I don't intend to read that. What I intend to do is to touch on a few areas that are covered in the remarks that I put together, which is more or less an essay, I suppose, on Ontario's fiscal position and economic situation going into the budget.

What I would like to do, then, is to talk about a few never-befores and a few what-ifs. I submit that we really don't know the Ontario of today, it's not an Ontario that we've experienced before. There's a very major shift in what has happened in this province since everything that we've become familiar with during the post-Second World War era.

Never before have we seen a Canadian, and hence an Ontario, economy as dependent upon US developments as the Ontario economy of today. We've seen, during this expansion in the business cycle since the last recession, the failure of the interest-sensitive sectors of the Canadian economy and the Ontario economy to come back on stream. By that, I'm talking about such sectors as housing and autos. As we all know, housing starts have simply stagnated; in fact, they've done worse than stagnated, they've declined throughout the recession. Auto sales, which is one of the key sectors that normally comes raging out in a recovery period, have been extremely subdued, extremely stagnant.

What we have seen in the Canadian economy and in the Ontario economy is a supersensitivity to US trade,

trade with the US. We've seen the country's merchandise exports surge, trade balances at record highs, but the sensitivity, I would submit, is demonstrated by the fact that last year in the first half of 1995 when the US economy was going through a period of relative slowing—and they've done that a number of times during this expansion, that is, they've accelerated, slowed down—when they started to slow in the first half of last year, we immediately saw the Ontario economy take the consequences. By a rule of thumb, if two successive quarters of negative GDP constitute a recession, then the Ontario economy in the first half of 1995 was in recession. Well, that's one never-before.

Another never-before is that we've never before seen Ontario lag the Canadian economy the way it has during this expansion. Attached at the back of this submission there is a chart that helps to demonstrate that fact. The point I'm trying to make is that the 1980s and the 1990s are very, very different. If you look at the chart for the 1980s, you see that the dark line, Ontario, consistently moved ahead of the Canadian economy. It was the leader of the Canadian economy. So far, and of course we've got relatively little data for the 1990s, we can see that during the first several years Ontario lagged behind the Canadian economy and is only now matching the same type of performance as the rest of the Canadian economy. That's another never-before.

Of course, we've never before seen the level of debt in this province as high as we see it now, approaching, as you all know, \$100 billion, roughly 30% of provincial GDP. And, of course, never before have we known debt service charges to be as high as they are, roughly 20% of revenue. And never before have taxes been as high as they are now.

I think it's important to recognize that for Ontario to remain competitive, it is essential that we have a similar tax environment to that of our surrounding jurisdictions. Now I know a lot of people will say: "Look, in Europe there are much higher tax rates. There are many countries throughout the world where there seems to be a much greater involvement on the part of government in the activities of business and individuals. Why not here?"

The simple answer to that is that this country and this province does not share an international boundary with France and Germany and Sweden and Norway, it shares it with the United States. We live in a free trade environment in which if we're going to be competitive, if we're going to maintain individuals as well as investment dollars and corporations in this province, we're going to have to keep our taxes competitive with those in the United States, with those in Michigan, with those in New York state.

Certainly, never before have we experienced the type of retrenchment in government services, government personnel that we are experiencing in Ontario and in the rest of Canada at this time. And never before has our private sector undergone as massive a shift—call it re-engineering, call it restructuring, what you will—but never before have we seen such a major change in the way in which we conduct business in this country and in this province. What does that all mean?

All these never-befores mean that it is extremely difficult to speak with assurance about what is going to happen in this province over the next year, over the next several years; hence, my what-ifs. Just what if the US goes into recession? It's not likely perhaps, if you listen to economic forecasters. In fact, the consensus of US economic forecasters calls for a roughly 2.5% growth in the US economy this year.

Just picking up this morning's Wall Street Journal, I see there's a degree of optimism on the front page that suggests that, gosh, golly, the United States is an economy which is now truly the collective of a lot of regional economies, and sort of that sense of diversity that comes just as from an investment portfolio that is diverse. Now the US economy is diverse. It has these different regions, some of which may go into decline, as we saw California being a very slow state to recover after the last recession, some of which may rage ahead for periods of time. A nice sense of balance and a nice sense of, gosh, if things work together, the US is probably in for a period of protracted, modest, but sustainable expansion.

1110

But what if it doesn't? You've got to remember that the US economy is a late-cycle economy. It's fully mature. The pent up demand for consumer goods that normally occurs during recession has long been met in the United States. It was only a couple of years ago that we were hearing a lot of talk in the US about the fact that that economy was pushing into capacity constraints both in terms of plant capacity and in terms of labour, the sense that we were reaching full employment and concern about inflation.

The US economy in fact has demonstrated through this entire business cycle expansion quite a proclivity to move, to gyrate. At one time, those of you who follow the financial markets may have been familiar early in the 1990s with the expression the double-dip. It seemed as if the US economy was going to go into recession again. Then came the triple-dip. Well, you don't have a double- or triple-dip unless you've had a period of expansion or growth from which to dip back.

That's the US economy. There's a risk that the US goes into recession. There's a risk that the economists get it wrong. It's almost an embarrassment perhaps to the profession. Just let me read you this, something I put together a little while ago.

"We can't tell you when, but most economists will attach a high probability of a recession occurring between now and the year 2000—definitely true. Economists have a poor record of forecasting turning points. In November 1989—this is the Canadian economy—"22 Canadian economists surveyed"—this is November 1989; remember the recession of 1991—"and not one predicted a decline in 1990, not one, and we know of course that it did decline in 1990. Even 12 months later, in November 1990, we were in recession, when the economy was in recession for three quarters in fact, 14 out of 18 were forecasting GDP in 1991 to rise. It fell by 1.8%."

So what if the economists are wrong? What if the US doesn't go into recession, but what if the US grows at 1%? The answer to that is simple: Look back to 1995, because the first half of the year the US economy was

growing at about 1%. What happened to Ontario? We were technically in recession, back-to-back quarters of decline.

Why does this matter? I think the message that I want to bring from this is, what happens if Ontario slides into recession before the substantial elimination of the deficit and the resulting pressures on existing income support systems or programs, coupled with the consequentially weaker revenues, would throw the fiscal plan off track? This is the big caution.

That would leave the government with the choice of one of three things: either further slashing spending, and that would of course serve to deepen the recession; or raising taxes, in direct contradiction to its plan, at the risk of deflecting investment; or allowing the fiscal plan to deviate from the path towards budgetary balance, and of course that would seriously undermine the confidence of financial markets, or could seriously do so, leading to even higher debt service charges.

What I want to emphasize is that all these choices risk deepening the recession, creating a vicious cycle whereby attempting to offset the fiscal consequences of economic decline lead to even poorer economic conditions, because you've had to engage in more stringent cuts. The poorer economic conditions trigger still worse fiscal results.

Note also that in this scenario—and this is not a base case scenario, this is a risk scenario—if that happens, the Ontario government will not be in a position to do anything about it. By that I mean it's not up to the Ontario government to decide whether the US is going to grow or not. If it happens, if Japan perhaps, an economy which has been struggling along the trough for some years now always at the risk of financial fracture—if that were to happen, a Mexican crisis—look back over the last several years and you can find trigger points, potential trigger points. If that happens, the Ontario economy would be extremely vulnerable.

Some recommendations out of all this: I think it is crucial for the government to stick to its course, because the opportunities to engage in fiscal reform later are going to be even more difficult than they are now.

Then comes the question of what to do about taxes, what to do about the tax cut. Here I would recommend, and this is not just with reference to the tax cut, but in general I would recommend that government engage in putting together a contingency plan—I don't mean a contingency fund; every government has a contingency fund and sometimes they've abused them—that says to the public, to the citizens, to the investment community, the financial markets, the international markets, what they would intend to do in the event that economic results look weaker than they appear to be at the time the budget is put together.

The advantage of this is twofold. First, it can help to build confidence and retain the confidence of the financial markets. Secondly, it can give the government an opportunity to bring in the tax cuts when they feel they can do so and maintain the integrity of the program for fiscal reform.

I style that in this way: If the government is assured and can be assured that notwithstanding today's less propitious economic environment, it can still meet or ex-

ceed its fiscal targets and yet deliver the fiscal tax relief, then all taxpayers, of course, will reap the benefit. If, however, the simultaneous achievement of planned deficit reduction and employment growth at any point appears in doubt, then fiscal reform must take pre-eminence.

Such a program could be built around the notion that and the purpose of this is that during the budget process, with the budget, the government makes it clear what it would do in the event of a weaker environment, either economic or just revenue environment. It could specifically indicate that the tax relief would be provided only in the event the GDP meets a certain target or that employment meets a certain variable. It could be indeed explicitly tied to the deficit. You could end up saying: "Okay. The tax cuts will be brought in effective perhaps January 1997, provided that the fiscal projections of the government are met." In the event that they are not being met, then the tax cuts could be reduced and made up at a future point.

I've also made a few comments in here on general government policy with respect to the sharing of federal and provincial responsibilities. I think it would be very, very foolish for us as a country to engage in a new round of federal-provincial arrangements which resulted in shared responsibilities such as we've seen dominating the Canadian scene.

It's important that several principles be observed: obviously the single taxpayer principle that everyone I think is familiar with; secondly, the notion that the level of government that provides the service should be given the opportunity, the resources to, but should be raising the revenues.

In this country, if it is necessary to have some type of equalization, a rebalancing of provincial incomes, I think it would be much preferable if that were done in an explicit manner so that we don't have so many of these programs which, as for example, the previous CAP payment, resulted in virtual equalization or another equalization program through the back door. Let's be explicit about it, and I would argue that the Ontario government should press in the appropriate forums to ensure that that transparency of equalization is there.

Let me stop there and leave it open if there are any questions.

1120

Mr Kwinter: Thank you, Mr McIver, for your presentation. I've sat on this committee for more years than I care to remember and I'm always sort of taken by the fact that usually we start off with at least a half a dozen economists from various banks and other organizations who come forward and put forward their idea of what is going to be happening to the economy. I remember one year when the numbers ranged from about 2% growth to about 5% growth and yet the government used as its projection a number even higher than the highest number that was put forward by the most optimistic economist. I find that that is one of the ways that budgets are structured. Come up with a number in the growth that will match what you need and throw it out as what you hope will happen.

I was somewhat taken by the Canadian Manufacturers' Association presentation this morning in which they

advocate that governments budget on a zero growth economy and then whatever they get is a bonus and they can use that money to retire debts, to do whatever they have to do. Have you given any thought to something like that?

Mr McIver: I suppose the obvious answer is, why zero? As I indicated, there's reason to be cautious about economic projections, but if we have so little faith in the projections of economists, why zero? Why not -2 or -5 or +5?

I think it is important that government go through the exercise of putting together an economic forecast. It's important, after having done so, to look at the revenue implications, and I must say that that's another big leap of faith, because even if you get the economic numbers right, the sensitivity of revenues to those economic numbers can be very, very difficult to predict. So you can get them even working in a perverse manner. The economy's stronger than you projected, but the revenues are weaker than you expected.

I think it's important to sort of do a base-case accounting framework. Hence my suggestion that it might be prudent and provident, just as we as individuals would do if we're looking at our own income over the coming year, to say: "Hey, I expect to get so much money, but I realize that there's a risk. In the event that our household income declines because one or another member of the family doesn't see their income aspirations realized, I would expect to cut back in the following area." I might say, okay, I just won't be able to save anything this year if that happens. I might say, if that happens, here's a list of the things I intended to do that I won't do this year.

I guess I can't see any particular virtue in selecting zero other than that it imposes a greater degree of fiscal discipline on government than does a projection of 3%.

Mr Kwinter: The reason why I was somewhat fascinated with the zero number is that you're using historical data from the immediate previous fiscal period. You've lived through that and you say: "Here's what we've spent. Here's what our revenue is." It isn't as if you're an individual who may not have any debt and say, "Well, I'm anticipating a greater income and I think I'm going to be living a little better than I did last year."

We have a situation where we have a debt that is approaching \$100 billion. We have a projected deficit of \$9.6 billion. We know that those numbers are there and, best-case scenario, we have to deal with that. To my mind, one of the biggest problems that we have had in our fiscal reporting is that the number that has been put in to anticipate the growth has never matched reality. If you take a look at the Common Sense Revolution, it is based basically on projections of growth, and in its very first year it's almost half of what their projections are based on.

Mr McIver: There's some virtue in the proposal that you're talking about. I guess the thing that worries me a little about that is that it does limit flexibility.

Let's take the example of last year. Let's assume that there was no growth last year and what you're basically saying is: "I know what my revenues are because I collected them in 1995. I'll spend the appropriate amount in 1996 to reflect that." In fact, you don't know what

your expenditures are going to be in 1996 because they are to quite an extent going to be determined by the economy of 1996. That is, all your income support programs are going to be tied to the way in which 1996 unwinds. If 1996 turns out to be a very much stronger year than 1995 and you said, "Gosh, last year was the pits, so I don't have any money to spend," in fact you would actually be overspending if you spent on that basis if you had in fact a collapse of your income support programs. You wouldn't have to meet those budgets, so you could actually end up spending more than could be justified.

It's a nice concept, and maybe the appropriate thing to do is to use as a baseline several years of recent experience, but government will always need because so much of the expenditure of government is entitlement spending, is not budgeted in terms of an explicit program so much as it is the consequence of how many people are unemployed. It would be quite difficult, I would think, to manage.

Mr Kwinter: Do I have—

The Chair: Thank you very much.

Mr Kwinter: I don't have.

The Chair: You're well over. Ms Lankin.

Ms Lankin: I appreciate your presentation. I think your suggestion around a contingency approach is a very practical one. I know my experience in the first two years of government and sort of every second month going into cabinet meetings and seeing the revenue projections on a decline like this, to the point when you were talking earlier about "never before"—we'd never before had a situation where revenues absolutely declined year over year for two years. It had never happened in the history of Ontario. So there's a whole lot that is being worked through with the restructuring of our economy and the fallout for that and government's response to it.

We don't have before us any revenue projections for the medium and long term. We don't have before us any expenditure projections for the medium and long term. I think in a way we are unfortunately only left with giving sort of macroadvice to the government, like, "Meet your deficit targets, and if you can't, then you should abandon the tax cut." And I don't disagree with your approach.

You've sort of said that we're in uncharted waters and we don't know a lot. There are some predictions out there with respect to economic growth and looking into 1997 and trying to assume what the US economy will do. Currently in the Minister of Finance's November statement, he's pegged 1997 growth to be at about 3.1%. He acknowledges that that's higher than the most optimistic private sector forecast at this point in time, which is at about 2.9%. The average runs at about 2.6%.

That decline or that gap in projections on economic growth, do you have any sense what that would mean to the government's projected revenues and their deficit target as is set out in the July and November statements? Surely it will put pressure on that number which will, if they proceed with the tax cut, have to be made up by more significant cuts in spending. I guess my secondary concern then is the increased drag on the economy as a result of that. You referred to perhaps more recessionary pressures.

Mr McIver: As I mentioned earlier, just getting the GDP results or forecasts correct is challenge enough. As I indicated, we don't do a very good job, especially when we're at or approaching a turning point. The second element of that is, even if you get the GDP numbers right, what happens to revenues? I sympathize with the people at Finance putting those numbers together. They are immensely difficult to predict, as you know, because you just described what happened in the earlier years when all the projections said they were going to grow, but what happened was they just fell right off. And it wasn't just because GDP was weak. Even the relationship between revenues and GDP was much more drastic than most people had predicted.

All I can say is that, looking back, as I did before I came over—I looked back at a couple of numbers—in 1992-93, Finance overestimated that GDP would grow in 1992 at 1.2%, but it overestimated revenues by \$2.5 billion; so 1.2% GDP, \$2.5 billion, it seems like a reasonable relationship. But then when you look at 1994-95, they underestimated growth, which turned out to be about 5.5% in 1994, by 2.2 points, but they underestimated revenues by less than \$1 billion. The relationship: What can you say? The contingency. That's why I think it's important.

I think it would be unwise to expect government forecasters to get it right. If we know they're going to get it wrong, then let's decide what we're going to do when they get it wrong.

1130

Ms Isabel Bassett (St Andrew-St Patrick): Thanks, Mr McIver, for a really well-thought-out presentation. The Minister of Finance wants to hear new ideas and certainly your presentation is filled with good and substantial ideas.

What I wanted to get to—Frances Lankin has picked up on the contingency plan—is could you just spell out, very briefly because I want to leave time for my colleague here, how you see that moving on? I know why you'd bring it in because you want to pursue our strong course on reducing the deficit, but failing a good economy in the rest of the world we might have to look at something else.

Mr McIver: What I would see would be something relatively simple, because I'm sure that already the people in the Ministry of Finance and the people in government, the members of the government, are already doing that. They're already asking themselves, "Well, what happens if the world doesn't pan out the way we expected?"

All I'm suggesting is that this be made part of a transparent and explicit exercise at the time of the budget. At the time of the budget you say: "Here is our projection for the deficit, \$X billion," to use a very simple example. "If we find during the year, three months later, six months later, that our new projections look like it's \$X+2 billion, then we will tell you now, if that's what we find, that we will abandon the tax cuts, or that we will expect to cut 10% across the board from every government department," whatever it is. That's part of the exercise I think is already going on. All I'm suggesting is that if you make it explicit there is an advantage.

Ms Bassett: What does it do for the public?

Mr McIver: What does it do for the public? First of all, I think it recognizes the accountability of government. The general public says, "I understand what the government's going to do." It makes them part of the process. More important, I think it has an important message to the investment community.

Mr Joseph Spina (Brampton North): It's nice to hear a modern-thinking economist, Mr McIver, instead of three union economists who trotted out Second World War economic theory.

Basically, we've been slammed as trotting out trickle-down economics à la Reagan, à la Thatcher. Is it not true that both the US and the UK experienced the largest revenue in the history of their countries when they introduced tax reductions to the consumer, and that the reality is that they spent it away, shall we say, with both Star Wars and perhaps the Falklands War? Is that a reasonable comment to make, and that we could maybe therefore expect an increase through the pent-up demand of spending in Ontario with tax reductions?

Mr McIver: I like the proposal; I like the notion of that. I would have to caution, however, that I would emphasize that the 1990s are simply not the 1980s, and the 1980s had a lot more going for it than government.

The Chair: Thank you very much. We appreciate your presentation to the standing committee this morning.

PAUL DUFFY

The Chair: We now welcome J and B Rose Consulting, Mr Paul Duffy, joining us.

Mr Paul Duffy: By way of introduction, my name is Paul Duffy. I'm a professional engineer. I have a business in Toronto and in Ottawa. I was introduced as being somehow tied to JBS Consulting. I'm not. I work independently as a professional engineer. We do a lot of work in the housing industry and it's on that subject that I come to talk to you today.

Basically, for the last three years, I have been working with the executive branches of the Ontario New Home Warranty Program, various industry groups like the Ontario Home Builders' Association and manufacturers and so on, to try to find a way to encourage innovation in housing in Ontario.

That process of working with this large group was a very difficult one at first because there were conflicting interests around the table. Basically, if you're talking about doing innovative things in any industry, the people who are going to benefit from the innovation aren't necessarily the people you have around the table today. They're the people who are going to be forward thinking and take advantage of the opportunities that are presented to them. They're small business people in many instances, or medium businesses that grow to meet the opportunity.

I think the committee is very much aware of the health of the housing industry. Housing industry projections for this year, based on what was happening last year, tend to be a little bit grim. Looked at another way, the fact that we haven't had very much housing production over the last few years can be termed an opportunity, that there's

a lot of pent up demand. Basically, I am trying to speak to you on behalf of a vision for the housing industry that looks, not at this year or next year but looks at the long term—five, 10, 15 years down the road—and where this industry is going to be relative to the housing industry of the world.

The housing industry in Ontario has some inherent advantages. Basically, our severe climate and stringent regulations have created for us a housing product that's unlike any other product in the world. The industry comes knocking at our door. As someone who employs 20 people in the province of Ontario in two offices, one in Toronto and one in Ottawa, I see innovative people coming to my door, large and small manufacturers alike, interested in trying to do something innovative in Ontario because this is the place to be.

That being our market opportunity, if you will, the reality of where we sit is this: Heretofore Ontario housing has had very little consistent focus in terms of encouraging innovation. Basically, there have been some ad hoc programs that you may be aware of. The R-2000 program was intended as a five-year program because it was relatively successful in terms of encouraging innovation; it was continued on for a longer period of time. The advanced houses program is another example, and my firm and people like us have had involvements with those types of programs in the past. The difficulty is that those are like passing ships. Once the program has come and gone, the rules all change and there's no consistent focus there.

What I'm hearing from manufacturers and from people who have a vested interest in growing their business in Ontario, is that we need a consistent focus to allow innovation to proceed in the province. I'm not asking you for big dollars. The construction industry, as you're well aware, probably represents in any given year anywhere from 5% to 15% of GDP. However, in terms of what we would be asking for, we're not asking for anything that even comes on the map in terms of funding for this idea of encouraging innovation.

I'd like to explain to you the barriers that currently exist. Currently, most of the government ministries that are involved with housing are regulatory ministries and as such they see their roles as defining standards for various aspects of construction, be that energy efficiency or accessibility or structural strength. Those things are very rigid rules that get implemented in terms of the regulations we see.

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What we find is that if you're going to come up with an innovative solution to make housing more affordable, you have to have integrated systems to approach some of those regulations, and that's where the regulations fall down. Basically, if regulatory agencies haven't seen a concept before, it becomes very difficult for them to approve it to go ahead. Effectively what we have when we have those kinds of regulations are automatic disincentives to innovation. I'm not arguing for removing the building code, I'm not arguing for lessening the standards of the building code, believe it or not, but what I'm arguing for is a pathway to bring innovative ideas into the marketplace.

What we need in our industry, and this is a plea as much as a statement, is a policy commitment on behalf of the government that it is committed to innovation and innovative ideas and that it is prepared to provide a focus for those innovative ideas to proceed. The focus these days in terms of research and technical innovation doesn't have to be much. With Internet and other innovations, if we had a staff resource and a place where innovators could be brought together with patent lawyers, for example, engineers like myself, researchers from universities and other institutions, if we had a focus like that, then this industry would be in much better shape to meet the challenges that exist.

I think on an ongoing basis we've got to commit ourselves to building one or perhaps two innovative housing projects, and I'm talking about houses here. We're talking about a few hundred thousand dollars worth of construction. I'm quite convinced that the industry can come forward with that money. I know many manufacturers who are my clients who would be willing to do that, but they're not sure that Ontario, in terms of the regulations and the vision for this industry, is necessarily the place where they want to do research.

We need a regulatory framework that encourages innovation. At present, we have the building code. In addition to the building code, we have a special one-time approval that's provided for in the Building Code Act that provides a review by a committee of the Ministry of Housing that will allow a particular innovation to proceed. You can imagine how that group would treat my coming to the table with 15 innovations at once in the same demonstration building. This would blow the complexity out of anything this group has ever seen.

Similarly, we have an agency that's called for in the Building Code Act called the Building Materials Evaluation Commission. The original commission I was talking about was the Building Code Commission, and that is the group that will give you a one-time approval. The Building Materials Evaluation Commission is willing to look at innovative ideas, but they basically have two modes of operation: You will either not get approval to take your system forward or you'll get complete approval to take your system forward in all houses all over Ontario. Effectively what happens is, if I'm a manufacturer, I do my innovation in another jurisdiction—the US—I bring results to the table and try to get approval to do it in Ontario, to use that system in Ontario. I don't come to Ontario first.

What we want is a vision for the housing industry in Ontario that basically, in not so many words, says Ontario is going to be the world leader in housing and that we are going to free up the regulation to allow that to happen, that we are going to put support in place to allow innovators to come together and proceed, and once they've done innovative work in the field, take that innovation and transplant that to streamlined approvals to get more widespread application in the bulk of Ontario housing approved under the building code.

Basically we're talking about four things:

—One is a policy commitment, and that takes action on behalf of the government, the elected members of the Legislature.

—We're talking about a coordinating focus. That takes relatively modest commitment of staff resources, one or two person-years, so that if an innovator comes to the branch, the Ministry of Housing, there will be a place to go—to the housing innovation centre.

—We need a regulatory framework that allows innovation to take place. The regulatory framework basically directs innovators to work with research institutions and others to help solve problems, address issues related to the technical merits of the innovation.

—And beyond that, the work coming out of the innovation and demonstration of new technology, new ideas, has to be used to streamline approvals throughout the bulk of housing in Ontario. If you do that, you say: "Yes, we're open for business. Yes, we're willing to commit to manufacturers and innovators."

The difficulty is that in terms of doing something of this nature, the people who will benefit from innovation are the people who aren't necessarily able to come to the table right now. I come to you representing a task group that was struck with very senior-level executives in key organizations in the housing industry. The gentleman who set up this meeting with you was a gentleman by the name of Barry Rose. He's the past president of the Ontario New Home Warranty Program. We have manufacturers and others around the table in our task group who have worked on this issue thus far. Basically, they realize that Ontario has some inherent advantages in terms of making housing world-class. It is absolutely scary how little effort is needed to take what we've got and capitalize on it and open up Ontario for business, for innovation and for growth.

The people who will benefit from this are people who are working on ideas in their basement, they're working on ideas in the back rooms of small to medium manufacturing concerns, and they need you people around the table, folks like ourselves who are technically knowledgeable, to back them up. They need a commitment that shows them, yes, Ontario's the place to do business, because there is a vision here that Ontario wants to be the world leader in housing on into the next century.

That's my presentation.

Ms Lankin: I really like what you had to say. I had an opportunity in the last couple of years trying to bring together a construction sector strategy project which would have looked at commercial, industrial and residential. I certainly heard from that group the message around regulations, but I have to admit that the approach that had been taken at that point in time was much more, "Just get rid of the building code"—the standard stuff—"the market will drive safe conditions." I think the approach your task force has come up with is one that would be a lot more acceptable to government of any political stripe in terms of understanding the need and balance between consumer protection, safety and environmental protection and the need for creating an atmosphere for encouraging innovation.

I had the opportunity at one point in time to visit companies, manufacturers such as Royal Plastics, and to see the kind of housing they've developed, which they're marketing around the world but not here in Ontario.

I don't have a specific question except I want to tell you that your approach is very positive. It's one that governments should adopt. There is room for innovation and research to bring us to developing that world house, and that is exportable as well as for our domestic markets. I applaud what you've brought forward.

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Mr Duffy: You cited the example of Royal Plastics. Royal Plastics is a major manufacturer in our industry. They have the resources to do what I'm talking about. They didn't have to wait for government to get out of the way and for government to be helpful and for government to do all those things. They could take their large industrial facility and build a demonstration house on their own facility. They've had countless research agencies and the general public through this house to prove that, yes, the technology does exist, it does work. In many cases, that's what we're talking about: giving people a comfort level that the innovative ideas we have actually make sense.

You can imagine the difficulty I have as someone advocating an innovative idea going into a jurisdiction like the US, hoping to export some of my ideas to benefit from free trade, and they ask me, "Do they use this technology in Ontario?" and I have to answer, "No." "Oh, why is that?" "Well..." Exactly.

Heretofore, a lot of the innovative concepts for housing and for the construction industry, to be brutally honest, have been extremely grandiose in scale. There was an initiative a few years back called the BIS board, Building Industry Strategy. Honestly, if we only had the money that was spent on the reports the BIS board created. That's all we need.

The R-2000 program: A very noble program, accomplished great things in terms of innovation and training, still is doing some innovative things now. But it's starting to wane because there isn't the vision there as to what the next step is with the R-2000 program to the extent that there should be. Here we could take some lessons and see that money that was spent on grants to get labelled houses built—if that was just spent on encouraging innovation and getting the regulation out of the way and getting the problems solved on behalf of people who have innovative ideas, it would be very, very helpful.

Mr Tim Hudak (Niagara South): Thank you, sir, for your presentation. It was good to hear the word "vision" and look at the long-term policies as well.

The presenter just before you, Mr McIver, talked about never-before scenarios, how we've never before had such high levels of taxation, such high levels of debt, and I would add to that such high levels of regulation. In your opinion, is there some sort of frustration effect with the level of regulation in the economy and the high level of taxation on entrepreneurs and innovators? Many projects don't get started that could get started otherwise?

Mr Duffy: Regulation without a purpose serves no one, so in many instances in our industry we are the bastion of free enterprise. The small businessman who has little more than a hammer and a pickup truck can start in our business. At the other end of the scale, no other industry is regulated by as many codes and standards and other provisions. It's absolutely incredible that these two visions are the same industry, but they are.

Mr Hudak: Does Ontario face a high degree of competition for entrepreneurs and innovators, let's say, with a high level of regulation and high personal income taxes? Is there a great deal of incentive for individuals such as yourself to leave the province or leave the country?

Mr Duffy: The climate for innovation is created by background legislation that accepts that product standards have to be high. I call your attention to the automobile industry. Stripping the Ontario building code down to minimum levels and stripping out energy efficiency requirements and other requirements leaves you with something that's analogous to taking emission controls and seatbelts out of cars. I don't think any of the automobile manufacturers have come to this table asking this committee or this government to do that. What they've probably asked you to do is to increase standards yet make sure that when those standards are applied, they're done in such a way that a minimum of other unnecessary regulation takes place, and that includes taxes.

The housing industry at this point is frustrated by a number of taxes that add to the selling price of a new house. Those taxes include lot levies, they include the GST, they include various land transfer taxes. All of those things are of a scale that they dwarf the innovative additional pricetag that's added for things like energy efficiency.

If, for example, we talk about the 1990 and 1993 changes to the building code and say, in large terms, that that added \$5,000 to the selling price of a new house, compare that to \$25,000 worth of GST, \$15,000 worth of lot levies and other hidden taxes that don't produce a tangible benefit in the end product. The stringent standards in the building code give you tangible changes in the product. I can go out and say, "Mr and Mrs Consumer, you have a fully insulated basement; you have a basement with a drainage layer on the outside which is going to be warm and dry." That is something that I, as a builder, can and should be able to sell. Those who can't, frankly, you're going to lose some people in our industry who cannot compete.

Mr Kwinter: I was very interested in what you had to say. I'm just a little confused when you talk about innovation. Are you talking about innovation of hardware, innovation of product or innovation of process?

Mr Duffy: Possibly all three. For the most part, the Building Code Act and the building code regulate technical innovation, so it's primarily hardware-oriented. But there's nothing to say that we're not talking about manufacturing of modular components that are shipped around the world. So in that respect, we're talking about process as well. We're talking about Ontario being the place where innovators come, do business and export to the world. So I think a vision in all three areas is highly appropriate.

Mr Kwinter: I have firsthand experience in this particular area in that I was successful in taking Canadian technology and transshipping it to Mexico, where it was accepted, and we actually have built houses there. But the main impetus for that is that the Mexican government held a competition. It was a competition that was different than that you got an end contract; it was a competition to bring innovation to the housing industry. People

brought forward their ideas, and you got a prize at the end. You didn't necessarily get an order, but you got a prize. That allowed you to possibly have bragging rights that, "Here, I won this competition with my innovative products and my innovative housing." Is that something that you think might help, if we did something like that in the province of Ontario?

Mr Duffy: Indeed, that's one aspect of it. I can see that to call attention to the actions of the innovation centre there's need for marketing support. Engineers are notoriously poor at marketing. I don't claim to be an expert in those areas. Fundamentally, though, the vision that I and others like me have could perhaps see an innovation centre on the grounds of the CNE in downtown Toronto. Once a year, when the CNE opens, can you imagine the tours of people who are coming through this year's new innovative ideas in the innovative house or two that has been built to be open to the public this year? That's the kind of marketing that could be brought around someone's ideas.

Mr Kwinter: Could I just ask you one more question, because I think I'm going to run out of time. One of the other situations that I've noticed that really drives us when you talk about innovative products is that usually the code is set to almost the lowest common denominator as opposed to the highest common denominator; that there are manufacturers who would not be able to meet the new criteria, and as a result they lobby to make sure that they are still included; otherwise a whole sector, a whole industry, will be wiped out. What kind of reaction do you have to that?

Mr Duffy: There's a real danger in having codes leapfrog the capability of the manufacturing sector to deliver product. But I would suggest to you that once a code change has been implemented, look very carefully before you draw standards backwards. Simply put, the industry adapts to the regulatory change and delivers new products to meet that change. Henceforward, you have to be very critical about where you're going, and it should be done in the context of this vision that I was talking about. But it's very important that you have something working at the front end of the innovation cycle and codes and standards working at the back end to bring up the laggards who wouldn't adapt any other way. That's really the role of codes. To the extent that our codes would be more stringent than other jurisdictions, the manufacturers realize that this is the future, this is the place you should be, figuring out these product ideas before you take them to the world.

The Chair: Mr Duffy, we appreciate your presentation. Thank you very much.

That concludes our morning's agenda. I would remind the group that we have a brief subcommittee meeting, which will take place in this room, I believe, immediately following recess. We're recessing for lunch until 1:30.

The committee recessed from 1201 to 1332.

RETAIL COUNCIL OF CANADA

The Chair: I'd like to welcome everyone back from lunch. We are welcoming the Retail Council of Canada.

Mr Peter Woolford: My name is Peter Woolford. I'm with the Retail Council of Canada. I'm their senior vice-

president of policy. With me this afternoon is Leonard Eisen, who is treasurer of the Oshawa Group and also the chair of our tax committee. Mr Eisen has had a number of other fairly high-profile positions over the years within the tax community and the auditing community, including a session, I believe, as chair of the Canadian Tax Foundation, so he comes very highly qualified to speak to the issues we want to talk to this afternoon.

I believe the clerk has circulated our submission to the committee and I commend it to you. I'd like to make some opening remarks based around that and then, as you suggested, Mr Chair, we'd be glad to take questions.

We're particularly pleased to have the opportunity to present the views of our members this afternoon. What I will do is outline the outlook we expect for 1996 and then address some of the key policy concerns that are on the minds of Ontario retailers.

First, of course, being in the retail business, we feel we should give you a quick commercial. Retail Council has some 7,000 members across Canada, close to 3,000 of whom are located in Ontario. Among them they account for about two thirds of all retail store sales in the country. I should note that while we often have an image of being a large store association, almost 90% of our members are independent retailers with one or two or just a few stores, so we have a very strong representation from the independent business community. Affiliated with us is the Canadian Council of Grocery Distributors, which represents all of the major food distributors in Canada. They also have worked with us in developing this submission.

I'd like to turn now to our sense of the past year and to what we expect in 1996. Looking backwards is not, once again, a very pleasant experience for the retail trade. We saw a continuation of poor markets in 1995 right through the Christmas season. Our members had hoped we would see some pickup at the important Christmas selling period, but in fact that didn't occur. As a result, the whole of 1995 really was rather disappointing for the trade, nor are our members very optimistic for 1996.

The reasons for that are essentially the same problems that we have seen influencing consumer behaviour, consumer confidence, for the last four or five years: lack of growth in personal disposable income, continuing high unemployment and individuals' fears about losing their jobs, continuing high levels of indebtedness and fears for the future of the country. All of these cause consumers to be more cautious, more careful with their dollars and visit retail stores less often and spend less money there.

Our members are also feeling a great deal of pressure as a result of some the structural changes that are blowing through the industry. This is showing up in the form of significant shifts in market share between store types and among individual retailers. All these developments are combining to push down margins and increase competitive pressures within the industry. In fact, what's happening here is that the trade is moving to a new standard of competitiveness in which retail margins will be substantially lower than they have been in the past, and this will require all retailers to continue their hunt to reduce costs and improve their operating efficiencies.

That's very good news for the consumer, of course, because it means that they're going to get excellent value

for their hard-earned dollars, but it's a very, very difficult process for the industry. The difficulty of making this transformation is showing up in weak financial performance for many companies and a number of firms through restructuring, downsizing, going out of business or even going bankrupt.

One of the other aspects that this committee may be interested to know is that we expect that, as a result of that, the trade will probably generate fewer new jobs than it has in the past during economic upturns. The cost of labour is a significant element in retailing, and wherever merchants are under pressure to reduce their costs, that will mean that they will have to look very hard at the number of people they employ.

I'd like to turn now to the policy issues that we would like to present to the committee, first of all in the area generally of fiscal policy. We would like to say that our members are delighted at the government's steps to correct the province's fiscal situation. In our view, that's long overdue. Nonetheless, as an industry serving the domestic market, our members are very, very aware that reductions in government expenditures will mean some Ontarians will lose their jobs and some Ontarians will experience a real loss in income. That is without question painful and harmful to the welfare of those individuals and we certainly recognize the seriousness of that.

But at the same time we also recognize that in effect the province has no choice in this matter. If the cuts were to be delayed further, Ontarians would pay the price only that much more down the road when the changes had to be made. Nor should anyone be under the impression that the steps the government has taken to date are sufficient. We think, unfortunately, that further reductions in spending will be necessary to achieve a balanced budget and to begin reducing the provincial debt. In this area we are somewhat reluctant to offer specific proposals because we're not experts in public finance.

The one thing we are prepared to offer up is all forms of subsidy and assistance to business. We think that's something we can speak about because we are a business representative group. We feel that all subsidies to business should be eliminated as they're not helpful to economic growth and serve only to distort market signals. In fact, the best way to create jobs and create a climate for growth is to do just that, to focus on the climate and establish a legislative, regulatory and fiscal regime that is competitive with other regimes with which Ontario is competitive and is facilitative of growth.

We've expressed concerns before this committee in past years about the impact of job-killing payroll taxes. We are pleased to see that this government has taken an initial step in this area with its measures to reduce the burden of the employer health tax. We have a continuing concern that the federal government has indicated for some years that it does not view payroll and capital taxes as deductible against corporate income tax, and every step that this province can make to vacate those fields would make us feel better that firms will not be faced at some point in the future with confiscatory taxation.

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I'd like to talk a little bit now about our views on harmonization of the provincial sales tax and the goods

and services tax. Our trade association has been a leader of a very large industry coalition numbering some 50 trade associations supporting the efforts of the federal government to integrate the GST with provincial sales taxes. In our view, harmonization is essential to improving the efficiency of the consumption tax system in Canada, and we also believe that a value added regime is the only one that makes economic sense. It alone promises to lower the cost and burden of administering this type of tax, both for the government and for taxpayers.

The second point I think in favour of harmonization is that because the retail sales tax is levied on many business inputs, it harms the competitiveness of Ontario's exporting and import-competing industries, thereby costing Ontario jobs, investment and business. The Minister of Finance has decried the loss of revenue that a shift to a value added model would entail, but in a highly competitive world we cannot afford to handicap our industries in this way.

The minister and the Premier have also expressed concern about the perceived shift in taxes from business to consumers which supposedly results from a transition to a value added system. We believe that most, if not all, of the burden of sales tax paid by firms is passed on to consumers anyway in their prices, and thus we end up with the result that the current retail sales tax system hurts customers relatively more because it imposes double taxation and cascading taxes on them but in a way they can't see. In fact, as companies in the distribution chain base their margins on the cost of the product they're distributing, the burden may well grow as that margin is calculated on the tax-included price.

Another argument in favour of harmonization compared to the value added model is that a retail sales tax works best when levied on goods. When it's extended to services it becomes increasingly difficult to distinguish between services provided to businesses and those provided to individuals and that thereby exacerbates the problem of double taxation and tax cascading.

I would note as well that for the retail trade in particular a retail sales tax which is levied on different bases and at different rates across Canada means that there's a greater opportunity for customers to shop rationally and do some cross-border shopping between provinces, and that's a difficulty that our members have seen in a number of border areas between provinces in Canada.

The final point I wanted to raise dealt with retailers' compliance with retail sales tax. We appeared, I think it was just a couple of weeks ago, before the standing committee on public accounts during its hearings into compliance with the retail sales tax, and we have appended to our submission our presentation to that committee for your reading. I'd like to just summarize some of the key points for your information as well.

Our submission recommends that any intensification of audit efforts should be very carefully targeted to ensure that they do focus on organizations where there appears to be a high likelihood of tax evasion. We strongly oppose random targeting of small retailers in the belief that there are compliance problems with this category of firm. In fact we feel that the real purpose of auditing of smaller firms should be primarily educational, to help

these firms understand what the requirements of the system are and to guide them through what is a fairly complex system.

I would note just in passing that that's another one of the benefits of harmonization that would mean that small businesses in Ontario, rather than having to learn the intricacies of two consumption tax systems, could learn one and at least then would have less complexity in their lives and fewer rules to try and follow.

I should add that we oppose any tighter or more extreme scrutiny of larger firms which might be rationalized on the ground that by going after relatively small technical infractions or differences in interpretation the auditors can generate large amounts of revenue for the province. We feel that's the wrong way to go. Retailers are partners of the provincial government in the tax collection scheme and such harassment goes against that relationship and would signal to us that the government viewed all retailers essentially as worthy of suspicion.

Again, the experience of recent history I think is helpful here. The real solution to tax compliance is to get overall tax levels down and the tax burden itself down. The best example we can think of is the experience of this province with respect to tobacco taxation in recent years, where at some point ordinary citizens perceived that that level of taxation was too high and embarked on a massive program of non-compliance. It was virtually a huge act of civil disobedience on the part of a large number of private citizens and led to serious problems both for legitimate retailers and the public purse.

In conclusion, we expect Ontario and the retail trade to experience a difficult year in 1996 and unfortunately again in 1997. Despite this, we believe the government has no option but to continue its efforts to get the deficit down and ultimately to attack the accumulated debt.

We acknowledge the continued public unpopularity of harmonizing the retail sales tax with the GST. It just happens to be the right thing to do. We would also produce a system that in fact is fairer and more apparent to the consumer in terms of the burden they're bearing.

In conclusion, we would urge the government to harmonize the GST with the PST. Those are my opening remarks. Both Mr Eisen and I would be glad to take comments from you now.

Mr Hudak: Thank you for your presentation. We've heard in this committee earlier today and last week that governments do indeed create jobs. CUPE, OPSEU, OFL, for example, all propose that the government keep current spending levels, if not increase spending levels. Do you agree with their proposal that government spending does create jobs, especially in terms of long-term job creation?

Mr Woolford: I think in the short term you could argue it creates jobs and that people continue to be paid to carry out certain functions. In the long term, Ontario has to earn its living in the world, and the organizations that earn a living from the province are those in the private sector. In a sense, I guess, technically they're right; as long as you're paying somebody to do something you're creating a job. But if you want to create jobs that are sustainable, that add to the value added in the province, that produce an economy that is more capable of growing and flourishing, then those jobs must be created by the private sector in the private sector.

Mr Hudak: If I understand your presentation correctly then, in terms of adding to the provincial economy, the GPP, and for long-term job creation, the idea of reducing the level of taxes in conjunction with balancing the budget is the essential way of creating long-term jobs.

Mr Woolford: That is absolutely essential. At some point this province simply has to make itself economically more competitive with other jurisdictions. We have to do that by getting our tax burdens down, and the only way to do that effectively is by reducing expenditures.

Mr Jim Brown (Scarborough West): What more can we do for you in terms of regulations or whatever to further increase jobs? And what does the regulatory framework do to the normal retail?

Mr Woolford: As I said in my submission, the number one thing you could do for us is to harmonize the two consumption taxes. That's job one. Everything else pales into insignificance beside that. That's a very substantial economic burden on the province, on the public sector in the province and on the job-creating companies. So that's job one. There are a number of other measures that this government has already taken steps to move on, such as workers' comp reform, but I have to reiterate, especially to this committee, harmonization of those two taxes is job one without question.

Mr Jim Brown: We have a Red-Tape Review Commission and we would welcome any ideas that you have to reduce regulatory overburden, really.

Mr Woolford: We'd be delighted to appear.

Ms Bassett: Just very quickly, I'd like to add, as the parliamentary assistant to the Minister of Finance, I want you to know we are working with the federal government to harmonize the two taxes and we cannot get them to propose anything that won't add a lot of money to Ontario's citizens right now. We are working in that direction and we want to cooperate, but not at the expense of the Ontario taxpayer.

Mr Woolford: As I said in our submission, where we differ from Ontario is in the belief that your minister has that the burden of the provincial sales tax currently levied on firms will be shifted to consumers. That's just not true. Consumers are paying that today, but because of the way the retail sales tax is set up it appears as though it's the merchant who is levying that extra cost on the consumer, and it's not. It's the public sector. That money should be clearly shown as a tax at the point of sale, and not hidden in the price. That's our view.

Ms Bassett: We'll pass that on, but there are many factors, as you know.

Mr Woolford: We do.

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Mr Spina: Thank you, gentlemen, for a great presentation. With regard to the retail sales taxes, you indicated there's a perception on the part of the public that you are levying the taxes, as opposed to the government, because it's very visible. Would there be any benefit to shifting some of those taxes to be absorbed, shall we say, within the retail price of products, as opposed to having it added on at the end of the cash register receipt?

Mr Woolford: I know Leonard will want to say a couple of things on that. As an association, we have not taken a position on whether the tax should be exposed or

included in the price. In fact, when we talk even to any one of our members, we get arguments on both sides. Many retailers are really torn. They believe when the public sector collects money, that should be visible. On the other hand, they know that it's very unpopular. So many of our members have arguments on both sides.

Mr Leonard Eisen: One of the difficulties of dealing with the price included is the competitive disadvantage one may feel if one firm has a tax-included price and another firm advertises tax as extra. Therefore, unless you can bring a level playing field to bear, firms will obviously advertise in a manner which gives them at least a competitive equalization and not a disadvantage. Unless there's a way that that can be legislated, it becomes very difficult.

Mr Kwinter: As always I enjoyed your presentation and am very, very sympathetic to the plight that the retail industry has found itself in. It's interesting that when I talk to representatives of the industry, notwithstanding that they keep reading in the paper that things are getting better, it hasn't seemed to have gotten through to the retail trade that things are better.

I do have some question with one statement that you make. One of the only strong recommendations you make is that financial assistance to business be completely eliminated, and while I agree with that in principle, I think there are some very dramatic and specific indications that without government assistance there would be some very long-term, very, very good jobs that would not be available.

For example, the government assistance to attract the Ford van plant and the paint plant, I can tell you, without that assistance it would have gone to St Louis, Missouri. When you take a look at Honda, when you take a look at Toyota, when you take a look at Camry, when you take a look at what's happening up in Algoma, notwithstanding that there are lots of problems there, you can't discount the fact that by the government intervention Algoma is operating and Sault Ste Marie has a major employer who is a major user of retail sales.

Now there have been some bad ones as well. I admit that. But you have to certainly be able to take a look at very specific cases where government intervention is a benefit to everybody and to the economy. Do you have a reaction to that?

Mr Woolford: I guess our reaction is that, the success stories notwithstanding, the government should not be in the business of trying to skew investment decisions. We say that knowing full well that there are a number of good examples of where public money has either retained jobs in the province or attracted them.

Our view is that the economy is strong enough and is well enough integrated internationally that if Ontario is an attractive place to do business, we'll get our share of investment. Chasing after individual instances is a very, very slippery slope, and once a government puts itself into that circumstance, it becomes very hard to know when to say no or even to say no at all. So our preference would be for the government simply to stop providing those contributions.

When you look at them in fact, they tend to all flow to either resource processing or manufacturing industries.

Both of those industries in terms of employment creation are going nowhere. All of the jobs are in the service sector, yet almost no money is provided for growth or new investments in the service industry.

This is not a plea for money for retailing by any means. In fact, retailing probably will not be a job creation industry in the future either. But the new job creation industries are in tertiary industry and the government puts none of its financial support or subsidies into that area. In our view, this is just not an appropriate allocation of money.

Ms Annamarie Castrilli (Downsview): Thank you very much, gentlemen. I wonder if I might just continue on the theme of jobs for a moment. Your industry has been very hard-hit in the last couple of years by your own submission, and you don't foresee a very good prognosis for the coming year.

The government has stated that it will create 725,000 jobs or create the environment for that: that somehow, at the end of its term, we will have 725,000 new jobs. As I look at what you've presented here, and bearing in mind that small and medium businesses are the generators of jobs in this country—I agree with you on that score—the government says that 72,000 jobs were to be created in 1995, some 81,000 in 1996 and the remainder would be somewhere in excess of 100,000-plus, 180,000, in the remaining years.

Looking at your industry—I don't have numbers but I just have your indication that employment is going to be difficult again this year for you—I wonder how you foresee the growth in your industry over the remainder of the next three or four years. Do you foresee that you'll be part of that 725,000 jobs?

Mr Woolford: I would doubt it. If there are jobs created, I would think they would be marginal in number. Leonard, you may have a better sense of that.

Mr Eisen: I think what you're going to find is that the quality of job has changed. Where people could count on full-time employment, the ability to offer that type of incentive in that type of environment is diminishing rapidly. The need to be able to provide service to the consumer at the time the consumer needs it is such that firms can no longer staff their premises for the full time they're open. So you will see more part-time jobs for focused attention and therefore not the quality of job that many people have grown up with.

Mr Woolford: If I could just add to that, one of the other conundrums you always face is that, in a period of significant economic change such as we're in now, it's easy to see where the jobs are being lost or will be lost. It's much harder to identify what the new jobs are. They tend to come in new companies, new activities which nobody has thought of before. So it's not surprising that industries and activities like retailing which have been around for a long time have a hard time seeing where they fit in that new scheme of things.

If we went back to even let's say the Dirty Thirties, it was very hard to see where anybody would find employment coming out of those years, yet 10 years later, in 1950, all those people who couldn't find employment in rural Canada were working in urban Canada in manufacturing activities. Similarly, there has been a shift from

manufacturing into service. What comes after that, I don't know, to be quite honest, but I think there is reason to hope that new jobs, new activities, will emerge as the process of restructuring and change in the economy goes forward.

Ms Castrilli: But not necessarily in yours.

Mr Woolford: Our sense is that in retailing, you will not see a lot of job creation.

Mr Tony Silipo (Dovercourt): If I can follow up on that, the issue of jobs is one area I wanted to pursue with you. I appreciate the presentation even though we have some basic points of disagreement, but on the fundamental issue of creating jobs, however they may be created—I obviously take the view that government has a role to play in that and I appreciate the fact that you believe the opposite—but shouldn't government at least have some understanding of where the potential for job growth may be so that that also becomes part and parcel of what fiscal policies the government of the day develops?

I guess what I have trouble with in what you're proposing to us is that you recognize that the cuts are going to cause some pain, are going to add to the lack of consumer confidence that you talked about at the beginning of your presentation, and yet you're arguing, I think, fairly strongly for that action to be taken. I suppose if I take from what you're saying correctly—and please correct me if I'm wrong—as a result of all of that, down line the jobs will come.

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I have a kind of a fundamental question, which is, where are the jobs going to come from? If we don't have any idea, as government or as members of this society, then isn't that what we should be turning our main attention to, as opposed to just sort of hoping that they will happen and then discovering that we've put all of this pain and agony and we've cut all of these services, we've changed dramatically the way in which the province and our society function, and maybe the jobs are going to be there, maybe not?

Mr Woolford: Our first answer is not to do these very painful things and something good will ultimately happen. Our first point is that these cuts that the government has made and will be making in the future simply have to be made. We really don't have any choice. The government simply cannot go on going ever deeper and deeper into debt. At some point, that has to stop.

We're already seeing the level of debt service in this province up, pushing close now to 20%. That means a fifth of all of the public revenues that could be used to the benefit of Ontarians in fact goes to bond holders, some of whom at least are offshore. That's a terrible waste of Ontario's resources, to simply pour that money out. The classic example of that is the federal government, which has now over a third of its revenues being paid out to holders of Canadian bonds. That kind of draining of the fiscal vitality of a government is a very dangerous situation for a public authority to find itself in.

It's not just that if you do this now, something good will happen down the road. It's that if you don't do this now, you're going to be in deep, deep trouble down the road, just as the feds are today.

Mr Silipo: But why does it make sense from your perspective to have the government, in effect, borrow money that it doesn't have to give people a tax cut? Is it because you believe that will spur spending? If that's the case, I'm puzzled as to why you wouldn't be advocating, for example, that if the government is going to do a tax cut, it do a tax cut on sales tax, which presumably would generate more direct spending into the economy than would an income tax cut.

Mr Woolford: We in fact didn't say anything about the tax cut in our submission.

Mr Silipo: I kept looking through it to see, but in answering the question you didn't comment on it.

Mr Eisen: The one comment I would make is that while we did not talk specifically about the tax cut, you have to look at the nature of the cut and how it will be ultimately implemented. At this time, we don't have sufficient detail to really give a comprehensive answer, but I would say there are a number of ways in which the tax cut could be used within the economy to generate expenditure and ultimately the jobs.

Mr Silipo: We don't have that information either. We're trying to get it, but nobody wants to give it to us.

The Chair: Thank you very much. I appreciate the Retail Council of Canada—Mr Eisen and Mr Woolford—coming in and making this presentation to us today.

COUNCIL OF ONTARIO UNIVERSITIES

The Chair: We now have the Council of Ontario Universities joining us. Mrs Patterson, welcome. Introduce the people who are with you for Hansard and please begin.

Ms Bonnie Patterson: We have myself, Bonnie Patterson, president of the Council of Ontario Universities, and Jim McAllister, the senior policy analyst for the Council of Ontario Universities. Sitting behind me is Pat Adams, director of external relations for the Council of Ontario Universities.

It's a pleasure to have this opportunity and I thank the group for seeing us today. Let me begin my remarks by saying that the Common Sense Revolution contained three proposals which have had major and will have major implications for the universities in this province. Those three areas, if I could briefly reference them, are going to be important to you and to us as we see this next year or two evolve.

The first was a commitment that has in fact been played through in the Finance minister's statement of November 29, and that is that annual operating grants for colleges and universities would be reduced by \$400 million. That proposal, as you know, will be implemented for the 1996-97 year, as it was announced by the Minister of Finance in his 1995 fiscal and economic statement.

The CSR also proposed "to partially deregulate tuition over a two-year period, enabling schools to charge appropriately for their services." As you know, this has begun with a commitment to the deregulation of international visa students in our system but is not complete.

The third element that was contained in that document was a proposal to improve the student aid system by implementing a new income-contingent loan program

similar to others that are being introduced around the world. That, as you may well know, is under discussion and indeed is very much in the preliminary stages of thinking.

Higher education in Canada: The system itself has indeed responded, I think very positively, over the last number of years. Enrolment in Canadian universities, as we've indicated in our brief, has reached a level of somewhere in the order of 10 times what it was at the end of the Second World War. In Ontario today there are some 260,000 participants in university education programs. I think we can all say that rapid expansion in our situation today is really one of the success stories in terms of making higher education accessible, despite some of the challenges we face in the fiscal environment.

Despite that growth, however, I would point out that more and more Canadian students are choosing to study outside this country. Just as one example, we quote in our brief the 22,750 Canadian students enrolled in American universities during the previous year, 1994-95, enough Canadians to indeed fill one of Ontario's largest universities. Those enrolments tend to be most likely in the faculties of education and in one of the health sciences fields in the United States. In other words, there still is plenty of unmet student demand for university education.

From an economic point of view, it's very clear that there are benefits to the public and benefits that are private to those individuals who are participating. Therefore, we've stated that it isn't difficult to discover why Canadians are so enthusiastic about experiencing the benefits of higher education. In addition to the intellectual stimulation and advancement of knowledge that students experience while they are engaged in their studies, once they graduate, they very clearly receive the economic benefits as individuals from a university education. University graduates, as you know, are more likely to participate in the labour force. In fact, the rate of employment of average university graduates in Ontario is significantly more than those who have not participated, and we've given you some statistics in that regard in the brief. At the same time, in participating they earn higher levels of remuneration for their contribution to the economic evolution of the province.

As a result, university graduates are less likely to be collecting social assistance or unemployment insurance—or employment insurance, as we're now referring to this—and they're likely to be paying more in personal income taxes and other forms of taxation, therefore making a contribution to the economic advancement and renewal of the province.

More dramatic yet are some of the effects of the evolving economic trends and the evolving economy in the 1990s. As Ontario moves into a very different sort of economy that is knowledge-based and knowledge-intensive, then one is drawing on those advanced levels of education and training, and an educated populace has then become more obvious as a need.

The 1990s are becoming an increasingly difficult period for people who do not have an advanced level of education and training. They herald an era when the investment in human capital is becoming more and more important, both for the individual worker and the economy as a whole.

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As we look at the funding of Ontario's universities, government grants for each student, once inflation is taken into account, are about 37% less than they were in the late 1970s. This underfunding of universities has occurred while, at least until the advent of the Common Sense Revolution, Ontario's schools, hospitals, municipalities and social assistance programs have been among the most generously funded in Canada. In other words, if you look at national comparative indicators, you will see the universities in a very different position than any other publicly supported or assisted institutions. These disparities will be worsened by the impact of the CSR because Ontario will have the greatest decrease in government grants to universities of any province in Canada. In other words, there is little victory in being funded 10 out of 10 across the country.

Turning to the specific recommendations as we've put them in our brief to the standing committee on finance and economic affairs, we would ask that you recommend that operating grants to Ontario universities be reduced no further than the level announced for the 1996-97 fiscal year. We obviously understand the financial position of the province and we know that we, like others, have had to make contributions. We believe we have.

Our second recommendation is that, beginning with the 1997-98 fiscal year, the provincial grants to universities in Ontario indeed be increased to reflect the needs of the province, that the province renew its commitment to higher education and that the universities begin the process of rebuilding the province's intellectual infrastructure, which can contribute to economic renewal.

Thirdly, the committee should recommend that institutions be allowed to increase both the standard or, in some people's language, the formula fees and the discretionary amount of tuition fees for the 1997-98 school year.

Fourthly, partial deregulation should be interpreted very broadly, not just in the context of tuition deregulation but in many other areas where restrictions are currently imposed on universities. We would hope that you would speak to the elimination of these.

The fifth recommendation that we would make would be that you inform the Minister of Finance that the province's universities will willingly set aside for student aid 10% of any additional revenue received from increases in tuition fees. There is no doubt that universities perceive the primary stumbling block being an appropriate student aid program in the province.

The sixth recommendation would be that Ontario immediately move to implement an income-contingent repayment program of student aid, as identified as one of the three fundamental proposals that affect universities in the CSR.

The final recommendation that we bring to you today would be that the Ontario government develop a research strategy for the province which will encourage a greater use of university facilities with new moneys made available to bolster Ontario's research capacity. In the brief you'll find that we've included some comparative indicators, both nationally and internationally, that would help you see where we stand both as a country and as a province in this regard.

I would offer those comments on behalf of the 260,000 clients of the university system who are enjoying their studies at this point, both from a public point of view and a private point of view, and on behalf of the 18 universities that Ontario has.

Ms Castrilli: Thank you very much for coming and presenting a very thoughtful brief. I'm impressed particularly by the economic material that's included in your brief. Some of us have argued for a long time that the central building block of any economic recovery must be our post-secondary educational sector. My biases are relatively well known on that score.

I'd like to ask a couple of questions and I'll start with the last one. You talked about developing a research strategy. You've obviously indicated in your presentation what funding means for that particular sector and how it impacts on the economy as a whole and on government revenues. What would a first-class research strategy look like?

Ms Patterson: To begin with, one has to not just look at the provincial situation when one looks at a broad strategy but rather at the relationship between both federal and provincial funding of research and where it's done in this particular province, the levels this province is able to secure as a share and what the expectations might be for growth.

I think the second element is that from a provincial point of view there is support that is given particularly in some innovative areas. I think you're all familiar with the Ontario Network of Centres of Excellence program. That has been I think one of the most successful, broad-based, strategic investments that the province has made over a number of years now. To see that scale of primary fundamental research capability being supported and support for an entire continuum of research to a very applied commercialization end of the research continuum would be very important. In other words, a strategy wouldn't simply focus on one end or the other but would build a set of expectations, capabilities and support for a broad range of research such that sufficient, basic research is being done to allow the long-term sustainability of the economy in the province and that support for the commercialization end be in place also because the applied becomes very important to current activity.

A third element really speaks to the structure of both government and the disciplines that exist within academic institutions. Currently, there are bits and pieces of research across a wide spectrum of disciplines and ministries that indeed university researchers and other researchers enjoy the benefit from. I think that support could be perhaps targeted strategically. It would take cross-ministry discussions to look at what the strategic priorities would be, but I think that would be a necessary element of a broad-based strategy as well. There are probably many others that I haven't thought of, off the top.

Ms Castrilli: Thank you. That's terrific. Let me ask a question with respect to another item in your presentation, where you talk about the effect on quality of education, and there are going to be about \$400 million in cuts which will have to be absorbed over the coming year. You've argued you could absorb that but that

beyond that might be very difficult. I'm wondering if you might speak to that point. At what point do we threaten the quality of the educational system so badly that there may be some very serious consequences?

Ms Patterson: I guess I would argue we're there now. I hope I didn't leave the committee with the sense that we are able to easily absorb the cuts in operating grants that have been transferred to the university system without an impact on quality. There will be. I can give you some examples around the province where, if you look at the fundamental structure of the investment strategy universities use with their budget, 80% to 85% of that budget is invested in people.

Intellectual infrastructure is what higher education is about, so the primary impact is in the strategies that must be taken by universities which exhibit themselves in a way that is not unlike other private sector recipients or indeed the government itself, and that is through early exit and early retirement packages that entice people to leave to be able to reduce the overall salary and benefits bill of institutions. The quality of those more senior academics participating both in the teaching and research environment that goes on in the universities will clearly be drained significantly in this particular cut.

The impact may well be absorbed from the point of view of the restructuring that will take place in order to absorb those shifts in personnel, both administrative and academic, but at the end of the day we will be in a position potentially not to be as competitive in the short and medium term to get at other resources that help support, for example, research infrastructure, research development in the province. Because of the curve of knowledge that exists in institutions as your more experienced and advanced academics leave, there is clearly a gap and a brain drain that leaves with that group of people. So how competitive we will be in the short and medium term in for example competing for Natural Science and Engineering Research Council grants or the Social Sciences and Humanities Research Council grants is yet to be seen. That plays itself through virtually every discipline that exists in institutions in the province.

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The other quality impact is clearly on the level of service and support that we can provide to students. Whether it's the mainstream administrative support areas to ensure that students are able to get into the system, get the courses they're interested in and then pursue their studies in various means, with the exodus of administrative and clerical support that is going out of the system we're very concerned about the level of service and support that will be left for students when indeed they're picking up a greater share of the cost of paying for that same education.

I use those examples, and there are many others that are much more micro-levelled, such as the number of options available to students as you both lose expertise and look for economies of scale, the lack of resources to invest in information technology that might help you deliver to a broader array of students in new, innovative ways. All of that is at peril.

Your question was, "At what point?" I would argue we are a system at risk now, given where we are in funding on a per-student basis.

Ms Lankin: I appreciate those comments. I worry about a number of things as they converge. I think about this particular student population, which is sort of our future's best and brightest. Certainly, the contribution that we hope they will make to the rebuilding of our economy is threatened by the scenario that you have just set out, their ability to participate in that economy and our economy's competitiveness depending on having skilled, educated workers and professionals to contribute. All of that is very much tied into the work, the product of the secondary and post-secondary education systems. It's a very key part of our competitiveness in this province, so I take caution at the words you have spoken.

I wanted to ask you specifically about the state of affairs with respect to deregulation or a partial deregulation of tuition, and the impact on access. In the last couple of years we've had expansion of OSAP to try to be in lockstep with increasing tuitions. There has been, for a couple of years, discussion of moving to the income-contingent repayment system. We're not there yet. The Friends of Universities were before us last week and said, "Whatever you do, do it at the same time, because the barriers to access are critical issues that we can't lose sight of, and the effect on a generation coming into university age now will be profound if we don't move on these policies lockstep."

Do you have any sense of the timing of where these discussions are at, what the barriers are to getting the income-contingent loan repayment program in place and where this government is at with respect to the implementation of that?

Ms Patterson: Our sense is that ICRP in particular is very much at a preliminary set of discussions. We have spent some time and are continuing to invest some time, within the Council of Ontario Universities, in testing an ICRP simulation model that has been developed collaboratively I guess by Stats Canada through some directive of HRDC. That is a very preliminary model that still has quite a number of bugs in it, but it allows you to do some scenario building and begin the exploration of the ICRP model. So my sense is that their thinking from a federal positioning was that we were a couple of years away, although from very recent discussions my sense is that they have upped the ante a little bit in terms of time frame and they would like to be able to move forward earlier rather than later than their original two-year forecast. We have begun some discussions that will bring together some Ontario representatives from within MET and HRDC to see whether a collaborative working group can't get at some of the issues a little more quickly and try to expedite that.

At the same time it's my understanding, when one looks at the Canada student loans program and then the Ontario student assistance program, that as early as this fall there will be a convergence of criteria that are being used to make the assessments of needs. That's a very beginning step towards, I guess, a complete amalgamation or synergy of the two programs. How quickly after this fall those two programs may come together in a different way, a little more closely aligned, is yet to be seen, but my sense is that it's perceived as a priority within MET, that indeed they are putting some work behind looking at

how the Canada student loans program and OSAP could merge in a better way and that they have acknowledged the importance of this.

Will a joint working group help move this more quickly forward? At the end of the day I would say that the fundamental element will be to what degree the finance department can in fact leverage and push federal participation towards a new, designed, revived, better, more equitable system.

So I think we have to be proactive as a province in moving that forward. The universities are very clearly anxious to be at the table to participate and facilitate that, and indeed the 10% tuition increases that have been demanded of the institutions didn't come as a surprise at all. In fact, the universities put that forward, not with that precise figure.

Ms Lankin: It was a bit higher, as I recall.

Ms Patterson: It was higher. We put that forward as a willingness and acknowledgement that it is a fundamental, critical need. So we're working on the amalgamation of that as well very closely with the province in looking at how you get at unmet needs and the use of that 10% to meet those unmet needs.

Ms Lankin: I have a—

The Chair: Thank you. Is it very short?

Ms Lankin: I think to be fair, in terms of the time that has been shared between the two parties, I've only asked one question.

The Chair: I know. It was a long question and a long answer.

Ms Lankin: I don't think, if you check the record, that it was.

The Chair: We had six minutes and it's just coming up to six minutes now. Is it a very short question?

Ms Lankin: I'll turn it over to Mr Silipo.

Mr Silipo: I just wanted to follow up on the question of accessibility that Ms Lankin was also asking about and perhaps just ask it briefly this way: Do you have, on the basis of the experience of the last few years, any way of giving us any useful insight into what the increases in tuition fees that will come now might do to the question of accessibility?

Ms Patterson: We don't. The province has the details behind uptake, application rates. One of the pieces of knowledge that we are just beginning to get from the Ontario system itself is information around the breakout of default rates, for example, which we are told are higher than they have been in the past. It is our sense, from very preliminary data that we have, that the situation vis-à-vis universities is not as high as, for example, other participants in post-secondary, including the private institutions that have access to student assistance. So from the universities' point of view we don't have all of the detailed data that would make it easier for us to participate in the kind of discussion you'd like to have.

What do we anticipate? We anticipate that there will be students at a certain level of socioeconomic background who will have greater needs as tuition rises. Do we have the stats? No, the government has the stats right now, and we're just beginning to get at that set of data in order to be able to look at how we move forward.

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Mr Wettlaufer: You mention in your brief here that 22,750 Canadian students enrolled in American universities last year. This would be approximately 5% or 6% of the total Canadian university population?

Ms Patterson: Canadian, yes.

Mr Wettlaufer: What would you think would be the average tuition fee in the United States that these students would have to pay?

Ms Patterson: Again, it depends on the breakdown between public institutions in the US or private institutions. On page 4 of the brief, table 1, we have outlined some comparators. You have to be cautious to look at public versus private institutions in the US when you're looking at comparisons, but what's clear is that tuition levels in the public side of the US system range from 42% to 210% higher than that which exists here in the province of Ontario.

Mr Wettlaufer: And in spite of that, they are not having a decrease in the number of students attending their universities.

Ms Patterson: That's our understanding—not significant. There is an element of demographics that you have to take into consideration right now. There is much that has extremely recently been in the press around a decrease in applications, for example, in the Ontario system of something like 1.4%. That seemed to cause a furore in last Friday's *Globe*. At the end of the day, that is absolutely anticipated. Why? Because there is a 1% decrease in the population in the secondary school cohort of age between 18 and 20 of 1%. That accounts for the 1%.

Then if we look at the other percentage decrease—this is in applications, not in those who actually enrol—a study that we did a year ago suggested that there was an increased amount of self-selection taking place among students whose grades were in the lower end of the spectrum. It is costly to apply to university from the point of view of the student's own contribution. There's a \$75 fee to apply. So our sense from the study we did of those who didn't apply would suggest that self-selection based on the cost and their expectation as to whether they would be admitted was one element.

A second element is a positive element related to the post-secondary system as a whole in that students are able, depending upon the discipline, to go to the college system first, which is a cheaper alternative, and then find their way, if they still wish to pursue university-level education, into the university system to pursue their actual degree. So there's some selection of students who go the college route because it is, quite crudely, a cheaper alternative up front; and then thirdly, others entering to pursue the workplace, which is an ongoing issue.

Mr Wettlaufer: You mentioned the issues facing Ontario universities, and there are a number of them here. I don't know if you're aware but the Ministry of Education is releasing a discussion paper by the end of the month and it will address issues such as student and provincial shares of post-secondary funding. At that time, a four- to six-month consultation process will begin.

I'd like to follow up on what we were talking about before, that the American university attendance is not decreasing, where there has been some suspicion that there would be a reduction here. There was speculation

in the media a week or so ago that this was directly as a result of reduced research and development that would be done at the Canadian universities, particularly Ontario, as a result of the reduction in funding.

I asked a member of the Canadian Manufacturers' Association who was here this morning what we could do to encourage the CMA to embark on a partnership program with the universities to have its research and development done by the universities. One of the comments he made was that we are already giving them sufficient incentive but that more would be welcome. Is there anything else that you could think of?

Ms Patterson: In the context of the manufacturing industry, I would say that there's a very classic way one could pursue this where the province could actually benefit from the previous investment that has been made, and that relates to the Ontario centres of excellence. MRCO, which is the Manufacturing Research Corp of Ontario, has developed a significant capability to bring together university researchers and people from industry and particularly focused on tech transfer, moving the research that is taking place in the research laboratory on to the plant floor, if I can use an industrial kind of analogy. I think the continuance of investment in such centres related to that sector, and there are many other examples: laser technology, telecommunications technology—to continue that program is one of the ways the province can demonstrate the ability to bring partners to a table and all invest in the advancement and development that can take place and draw on university research capability that is already being supported by the province.

The Chair: Thank you very much, and we appreciate the Council of Ontario Universities joining us today.

ONTARIO TRUCKING ASSOCIATION

The Chair: We now have the Ontario Trucking Association. Mr Bradley welcome.

Mr David Bradley: Thank you very much, Chairman, members of the committee. I am joined today by Steve Laskowski who's going to make sure the technology doesn't break down on me during the presentation. Unfortunately, I couldn't pry any truckers away from the desk today to come. They're quite literally trying to keep the wolves from the door.

If you'll bear with me for a few moments, the trucking industry has received a lot of attention over the course of the last year or so and I would like to just provide some information that I think will be helpful in terms of understanding the industry but also in terms of the backdrop for this year's budget. I don't think it's any real surprise to anyone around this table to know that the economy we face now and the challenges we face now are quite different than in previous decades. Inter-provincial and international boundaries and borders are becoming increasingly irrelevant in terms of where investment's flowing and where production facilities are being located and, finally, which way traffic is flowing as well. The trucking industry's really on the vanguard of the changing structure of trade that we're seeing, North America and worldwide.

On top of that then, which presents some unique challenges in and of itself, we have a continuing sluggish

economic pace of growth in Ontario and a continuing soft forecast at best: Unemployment remains high, the consumer is still on vacation, and we have the enormous budget deficit to tackle.

Trucking has a role to play. We're tied so uniquely into the mid-continent manufacturing sector. As a result, we are the dominant mode of freight transportation in the province, hauling 70% of the province's land freight. The reason why we are the dominant choice among the manufacturers, retailers and other shippers of the province really has to do with the package of price and service that we provide. It's a competitive price service, but more than that it's a flexible and timely service which allows us to serve the just-in-time inventory systems that are so important to manufacturing today.

We move the highest share of consumer goods, about 90% in the province, and make a significant contribution, as you can see from the charts, to GDP. We also, interestingly enough, have a significant spinoff or multiplier effect, I think somewhat higher than most other service industries, and for every dollar of value added in trucking we generate about 71 cents in GDP elsewhere in the economy. Part of that is because trucking isn't focused in just one area of the province. Anywhere that's serviceable by road in the province you will find truck terminals and probably find trucking companies actually located in those jurisdictions.

All of that makes us a significant employer. If you look broadly at the industry, including all people involved in the service or the use of trucks, we would approach 200,000 people or just less than 5% of the provincial labour force. But if you look at the typical trucking operations—what are called the for-hire carriers, those who haul goods for compensation, or private carriers, those who haul their own freight—we employ about 90,000 people in the province. That, as you can see from the chart here from StatsCan, compares quite favourably with some of the other key industries in the province.

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Obviously, trade is a key to Ontario's economic potential. One quarter of the province's GDP is exported, three quarters of that going to the United States. The major markets in the Northeast and the Midwest are one day's truck drive from Ontario, which places Ontario in an ideal situation. You'll see by value of trade the trucks haul 75% of Ontario's trade with the United States, and that's been growing over the last decade or so and we expect it to. That not only is an indication of the service that trucks provide, but it's also an indication of the type of freight, the high value added manufactured goods which are key, again, to our economic outlook.

You'll see, and I think this is a reflection of the economy overall, while the domestic economy has remained somewhat in the doldrums, the bottom chart will show you that border crossings between Ontario and the US by trucks have continued to escalate over the course of the last number of years, and that's a reflection of free trade and the shift of freight from east to west to north-south and the fact that the correction in the value of the Canadian dollar, essentially, has had a major boost for Ontario exports to the US.

You would think, with that kind of growth across the border and tackling the US marketplace, that the trucking

industry would be in wonderful financial shape. Well, it's not. The first chart there is a tracking of the operating ratio, which we use in the industry to measure profitability; that's exports over revenues, not including interest or income taxes. You'll see we've been hovering in a very narrow margin around 95. That means that before income and taxes, the margin is about 5%, which leaves maybe 1% or 2% at the end of the day. So we've really, as an industry, had to become very efficient and very productive and go out and try to find the bottom line, and we've started to do that.

Beginning in 1992, prospects did improve in the industry; 1994 was an excellent year. We started to repair our balance sheets. We started to see bankruptcies in the industry coming down. However, and I think this is important, because trucking is a leading indicator of economic activity, long before the folks at Stats Canada realized it, by April of last year our industry was showing a significant downturn again, particularly on domestic routes. I can tell you that this continues till today. December was extremely soft, and people are becoming increasingly worried about where the economy is going.

The outlook for 1996: We're hoping by summer that the lower interest rate regime will help to spur investment and some consumer confidence. But one has to keep in mind that with inflation hovering at very low levels, between 0% and 2%, real interest rates are near their all-time highs, and we have a long way to go in that regard.

As I say, we've had to repair our balance sheets. We've had to become more efficient, more productive. Unfortunately, the casualties in that have been our employees. We're an employment-strong industry, as opposed to a capital-intensive industry. You'll see that since 1989, when we entered into deregulation and the new free trade environment, where we've had to change the way we do business, we've seen a steady and gradual decrease in employment in the industry that's just begun to flatten out over the course of the last year. Similarly, wages have had to correct, and over the last few years we've only seen very modest improvement. In fact, over the course of the last year, again, we've seen the line start to trend down.

Of course, budgets always deal with tax issues. I'm not sure that we're going to see, and I'm hoping we're not going to see, very much in terms of new tax increases or new taxes in the next Ontario budget. But just in case, I think it's still important to place trucking, because I think we're often misunderstood, in the context of where we sit in the global, industrial base of Ontario. You'll see from the numbers on the top chart that in terms of the percentage of revenues, about 8% of our revenues are taxed and that is significantly higher than some of the other major and some profitable industries in this province.

That's significant because our margins are extremely razor-thin, but I think probably more important to people around this table is the impact of transportation taxes on our international and industrial competitiveness. The bottom bar chart shows a number of Ontario industries and the impact that taxes on transportation contribute to their overall competitiveness. You'll see that it's quite substantial.

The typical tractor-trailer, what you would call the 18-wheeler in Ontario, if you add the driver in, pays a

minimum of about \$39,000 a year in taxes to the province of Ontario, and we've itemized each of them as to what it comes to. I think that's a significant amount when you consider there are about 200,000 of those units domiciled in Ontario and operating on the highways every day.

A key issue for us, much like some of the arguments I heard from the retail sector, is tax fairness and tax equity as it relates to taxation of business inputs. Although we're so tied into the manufacturing sector in the province, and in fact the manufacturing sector would stop if there wasn't the service trucking has provided, we don't have the same benefit or tax incentives in terms of taxation of our business inputs. We're taxed on our tractors. We're taxed on our labour and repairs. We're taxed on the insurance premiums, on the tires, on warranty repairs etc.

The Ontario Fair Tax Commission may not be the best source of support for some of the things we're looking to do, but I thought its arguments with respect to the sales tax were quite persuasive. They certainly recognized that when you tax business inputs you simply make those products therefore more expensive and less competitive, and ultimately that contributes to a slackening of economic growth and job potential.

The Tory government recognized this back in 1983 and for a time we had an exemption on sales tax of new tractors and trailers, which helped the industry at that time emerge from the recession and ensure it had the most efficient, most productive and safest equipment possible.

We're not suggesting a tax exemption at this point. We don't think there's much currency to be gained in that. But we do think the best approach to that would be a harmonization of the GST and the PST. We're somewhat disappointed in what we're hearing on that front at this point in time, but we're hoping that can be resurrected.

For us, it's also a key economic competitiveness issue. Again, we're an industry that crosses border and our competition comes from Arkansas, Missouri, places like that. When you look at the United States, you'll see that almost half the states have an exemption on sales tax for tractors and trailers on their interstate commerce. I can point to instances where a state has introduced a sales tax and had to rescind it because everybody just went next door to buy their equipment there.

Similarly, for repairs and labour, virtually all of the states are exempt from that, and Ontario's one of the few jurisdictions anywhere that imposes a tax on repairs and labour. Similarly, the tax on warranty repairs is really double taxation because that's already considered in the price of the vehicle when you buy it and the price of the warranty. We'd like to see that eliminated. The sales tax on insurance premiums is a tax on safety, not very well-thought-out, and really singled out our industry over most others.

On fuel taxation, I think the story is pretty clear there. We've seen an escalation in the tax on fuel since the mid-1980s. We held steady at the high level of 14.3 cents a litre over the last number of years. It's a fallacy to consider fuel tax as a sin tax. They are not. Trucking is an essential service, and it's rather regressive to be taxing

distance and hurts the smaller communities furthest from the major markets the most.

In terms of where we rank in our fuel taxes, you'll see that Ontario is a little higher than average across Canada. Two years ago we would have been the highest save and except for Newfoundland, but I guess some of the other provinces got some ideas from Ontario and started to raise theirs. Compared to the US, which is extremely important, you'll see that the neighbouring states, New York, Pennsylvania, Illinois, Indiana, Ohio, all have significantly lower fuel taxes than faced by the domestic industry here. I don't anticipate fuel tax increases in the next Ontario budget, but one never knows. The federal finance committee is talking about it and I'll have something to say about that later.

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If we want to talk about something that government can do for industry and for itself in terms of ensuring that everybody's paying their fair share of the fuel tax and to ensure that they're keeping their compliance costs down, the government audit costs down, we would like to see Ontario finally join the international fuel tax agreement. This is something the former government agreed to. Unfortunately, the ministry itself couldn't get its act together and missed the January 1, 1996, deadline that it had set.

As you can see from the charts now, Ontario is the only jurisdiction in Canada that has been unable to do that. Up until recently we thought we were in the select company of Newfoundland, but even Newfoundland has found a way now to get into the agreement. We still are waiting. We were told January 1, 1997. However, once bitten—whatever the expression is. Similarly, we're being charged a decal tax that was imposed solely for the startup costs of IFTA. We're still paying that and not getting the service. If you look again to the US, there are very few states that aren't ready to meet the January 1 deadline.

There are benefits of this program both to industry and to government. I'll focus just on the government. This is a one-stop shopping scenario. As opposed to having to fill out forms and send them to 60 North American jurisdictions four times a year, carriers deal solely with their base jurisdiction. The number of fuel tax accounts the government has to deal with is reduced. They have better audit coverage. They audit only their own carriers. There's a better exchange of information between governments and that leads to a much more effective and efficient management of the fuel tax system. We would really urge the government of Ontario to commit to 1997 firmly and to look at what it's going to do with the startup fees once it's actually in the program.

One area of investment and capital spending that we think it's important for government to keep in mind as it looks at all the balls it's juggling with respect to education and health etc, is that if you're really serious about economic renewal and creating jobs, one of the best ways is through investment in infrastructure. The top chart shows the decline, except for a pickup during the early part of the 1990s, in funding for the Ministry of Transportation. At the same time, the bottom chart shows that for highway users, revenues of course have gone up quite significantly to government.

The next chart is something consultants would create, but simply investment in the infrastructure and capital investments spurs technological innovation, spurs economic growth, spurs job creation. I don't think there's an economist of any political stripe in the last several years who hasn't told governments that they have to invest in infrastructure.

One of the areas where we need investment is in the national highway system in Ontario, which are our rivers and corridors of trade, and unfortunately the federal government, while it likes to move into Ontario's taxing jurisdiction there—it now takes \$2 billion a year from Ontario motorists—it puts virtually nothing back into the national highway system. That compares quite dismally with national governments in most other jurisdictions, and you can see the numbers for yourselves. I would urge Ontario to continue to press the federal government to work with Ontario to invest in the trans-Canada system as we see it in Ontario.

Quickly, then, our budget recommendations: One is to harmonize the PST and the GST, and there are ways to ensure that the burden doesn't fall entirely on the consumer or on to the poor. There are means through tax credits, exemptions etc that can be employed, and really when you look at everything that's already being taxed in Ontario, we would argue that the tax base doesn't leave much at this point and that what would be left would be discretionary for the average consumer. Secondly, in the interim period we believe the government should move to eliminate the sales tax on automotive insurance and warranty repairs, which again is a tax on safety. Don't increase fuel taxes, and finally, keep the commitment to get us into IFTA.

In terms of redressing the fiscal imbalance, we agree and urge the government to continue its deficit-cutting plan. It ain't easy and it's going to make a lot of people unhappy, but it has to be done. However, there are some times when we also believe that the consumer of government services should be consulted on some of these cuts so that we can perhaps provide some information on where you will get the biggest bang for the buck. There's a lot of useless legislation in the transportation domain that right now just supports an administrative bureaucracy. It should be gotten rid of. Nobody would miss it.

There are ways to enhance safety and at the same time improve the efficiency of the enforcement effort currently under way at the Ministry of Transportation. One of the things we're talking about that you may have heard of in the media is a carrier safety rating system. The inspection stations are really a thing of the past. We have to rationalize those and look at new surveillance technology. There are opportunities for self-regulation, where the industry itself—for instance, on the air-brake adjustment training and the wheel installation training programs, which have been recommended in some of the recent coroners' juries and by the Minister of Transportation himself—where that's something industry could do under the appropriate legislation and pay for that without a penny going from the government.

In terms of infrastructure, I can't come here on the one hand and tell you to cut the deficit and still spend money on roads, but I would urge you to maintain it as a priority

and near the top of the agenda, if we're serious about economic renewal. Highway 407 is going to be paid for by the users. Let's make sure we build the whole thing and not create bottlenecks in the east and the west, and let's keep the pressure on Ottawa.

I know I haven't left a lot of time for questions, but thank you very much. I'm pleased to field them.

Mr Silipo: Thank you for a fairly detailed presentation. I wish we had the time to actually go into more detail, but there's much in here that certainly we would support and I hope the government party supports.

Particularly on IFTA, has the delay in that been just more of an administrative question then? I haven't heard anything from the government saying it's opposed to that.

Mr Bradley: Yes, it appears to be purely and simply an administrative issue, which we can't quite understand. We believe that Ontario and its bureaucracy have the resources. We've not received an acceptable answer on that yet. It's quite concerning. Our carriers will be the only ones virtually in North America that have to fill out over 250 fuel tax reports this year. It's a heck of an administrative burden.

Mr Silipo: The infrastructure question: We heard a similar position to yours last week from the Ontario Road Builders' Association that pointed out to us the need to maintain a high level of government investment in that area. I just want to sort of make that link, although I'm sure you're quite aware of that. The question I need to ask you on that—you flagged it yourself—is how do we reconcile that with the position you're also supporting, which says, "Keep cutting government"?

Mr Bradley: It is a question of priority. I would argue that the money is there now if we're willing to look at the allocations that are made or at least a substantial part of the allocations made by the road user to ensure that goes back into the road system. Right now, as you know, all revenues go into a consolidated fund and are divided up from there.

What we'd like to see is more of the money that's taken away in terms of licence fees, taxes, fuel taxes etc.—that we ensure it goes to the road system. As the auditor said, if we don't start making that investment now, it's going to cost one heck of a lot in the future. It's causing no end of trouble now in terms of safety, in terms of wear and tear on vehicles. It's costing the province a lot of money. Some investment now would go a long way in the future.

I'm not one of those people who believes that there is great short-term job creation to come from those kinds of infrastructure programs. There are some construction jobs. The real benefit is down the road in terms of productivity and efficiency of movement of people and goods.

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Mr Ford: Mr Bradley, thanks for coming today. The question I have for you is, are you still getting severe regulation? I know a couple years back you got all kinds of regulations from the American states as you were trucking various products stateside. If you're still having those problems, is there anything we can do as a government to try to assist you with those?

Mr Bradley: Yes, quite definitely. I'll be meeting with the Minister of Economic Development and Trade next week.

The Americans are very good negotiators. Unfortunately, their federal government has very little control over the states and we are being nickelled and dimed to death. Presently, for instance, we've got the state of New York in court over something called the franchise tax, which taxes the entire revenues earned by an Ontario-based trucking company, even when it's just transiting through the state. It's hard to go anywhere south unless you're going through Michigan or New York. Pennsylvania is coming up with a similar tax; Ohio, Michigan had one; I have no doubt they'll revisit it.

There is a lot of harassment of Ontario-based business when we operate into and out of the United States and certainly we could use the help of government in terms of using your offices to talk to the governor of New York and others to try to come up with a more balanced situation. We don't want retaliation. We'll pay for that too and we won't win that in the long run. But I think the Ontario government could stand up for Ontario business in this regard and be heard.

Ms Lankin: Mr Chair.

The Chair: Do we have a point of order?

Ms Lankin: It was just a quick interjection. I just wanted to know if Mr Bradley's pronouncement of the word "harassment" of Ontario was on purpose or not. Sorry.

Mr Bradley: Shall I answer that one?

The Chair: No. That was a non-question.

Mr Ford: What I would like to know is, have you made presentations to the Ontario government on these facts and also the Canadian federal government?

Mr Bradley: Yes, we have, and as I say, I'll be meeting again next week with the Minister of Economic Development and Trade to try to work out a game plan.

Mr Ford: Good. Thank you very much.

Mr Crozier: We can't do a lot to affect the budget, I think, but I did want to just have your comments on the two areas that you talk about legislation which no longer serves a purpose, because I think we all agree that this should be done away with, and how that relates too to carrier safety.

There's a perception by the public, and there's been a lot in the news, and I think for good cause, about concern about truck safety. Can you assure us somehow that anything of a self-regulatory basis could be relied upon in view of the fact that the public feels that your trucks should be safe now?

Mr Bradley: I could be flippant and say that one could look at the government enforcement effort over the last several years and might argue that it's been a dismal failure and that we couldn't do any worse, but I won't do that. I think there will always be a role for government enforcement. I think what we're talking about is repealing useless economic-based regulation and allocating those funds to businesses that the Ministry of Transportation should be in, which is enforcement.

Having said that, I think that because our industry is so big—I mean, there are 75,000 CVOR holders out there and 20,000 registered domestic trucking companies in the province—what they have to do is focus their efforts on the problem carriers and the real safety problems, and not

try to enforce everything, as they're doing now, because they're touching such a small tip of the iceberg.

By allowing self-regulation for those who earn it and deserve it, the safe carriers, is the only way to go. I'm certainly not talking about holus-bolus self-regulation. Some people, as well, just have to simply be put out of business in this province and it would make no difference whatsoever to competition; the freight would still move. However, we're not seeing that kind of support coming out of the Licence Suspension Appeal Board.

The Chair: Thank you very much, Mr Bradley, for a very complete presentation.

CITIZENS FOR PUBLIC JUSTICE

The Chair: The next group is the Citizens for Public Justice, Mr Vandezande. Welcome to the committee.

Mr Gerald Vandezande: Thank you, Mr Chair. I've given the clerk copies of my notes for remark as well as a chart developed by the Canadian Council on Social Development illustrating a couple of the points that I want to make in my presentation when we come to the specific recommendations that Citizens for Public Justice wants to make with respect to next year's budget as well as the budget of future years.

Thank you for allowing us to appear here. We've appeared before a number of standing committees dealing with future budgets and made submissions ever since 1988. One of the key themes that we have argued for as Citizens for Public Justice is the need for the integration of economic and social policies. To that end, we have consistently advocated, and at one point the standing committee endorsed our recommendation, that there be a provincial round table on social policy and the economy that would provide for the integration of social and economic policies.

This standing committee, at least in its previous makeup, wholeheartedly endorsed that recommendation and urged the government of the day to proceed. We think, particularly now that Ontario's going through a serious economic crisis as well as a serious fiscal and social crisis, that the integration of economic, fiscal and social policies is absolutely called for and is an essential requirement if the government is to come to the Legislature with a budget that makes common sense to the common people who are affected by it.

So our key recommendation is that there be such a round table and that you, as a standing committee, recommend that to the government and that the standing committee itself engage in some cross-ministry cost-benefit analysis as to what previous and current budgets are doing to the people either in terms of the tax burden or the tax benefit that they receive as well as the specific budget allocation that the Treasurer makes with respect to certain items that directly affect particularly the most marginalized and vulnerable people in our society.

On page 2, at the bottom, we make our first recommendation: CPJ urges the Ontario government, in active consultation and close cooperation with the municipalities and the non-government sector, firstly, to make the elimination of homelessness, hunger, material poverty and unemployment the number one priority of public policy;

and secondly, that this government strongly urge other provincial governments during first ministers' conferences and on other occasions, and especially the federal government, to establish the same public policy priority.

We think there needs to be a coordinated attack on the reality that we have widespread homelessness, hunger and material poverty as well as chronic unemployment, not only in Ontario but throughout Canada. We believe that all levels of government should exercise leadership and work together to take policy initiatives that would work and contribute towards the elimination of those two major issues.

We think that poverty, like national unity, is a non-partisan issue and that particularly this standing committee could do the people of Ontario a real service if it demonstrated by forgetting about its political priorities—that is, partisan priorities—and said to the Treasurer and to other ministers responsible for the wellbeing of Ontario citizens that the elimination of material poverty and homelessness and related questions be made a policy priority.

So we urge you to recommend that the government help provide, together with the non-government sector, adequate employment opportunities, adequate affordable housing, adequate health care, adequate income security and adequate human support services such as accessible child care. Both the round table and this committee could engage in consultations around those major social, economic and fiscal issues.

Our third recommendation is that the 1996 budget attack the province's serious economic ills and grave social injustices and give clear preference to the elimination of unemployment, homelessness, hunger and material poverty. A recommendation that is coupled to it is that the government's 1996 and future budgets should not contain any income tax cuts until the causes of poverty and unemployment are dealt with effectively and until the province's debt and deficit are paid down.

1510

At this point I want to make a comment in connection with a major interview that the Premier did on CBC Morningside with Peter Gzowski. Throughout that interview, the Premier insisted that the \$4-billion tax cut would be self-financing—that is, it would have no negative impact on the budget in terms of the final deficit that would come out of it; secondly, that it would finance the creation of 725,000 jobs.

My request and the request of the organization and the people we seek to serve, particularly those who are vulnerable is, where are the studies, where is the impact analysis that demonstrates that Mr Harris's contention that a \$4-billion tax cut as proposed in the Common Sense Revolution, a tax cut that would be given to people across the board and the benefit of which would go mostly to higher-income people, would produce 725,000 jobs, would be revenue-neutral, would have no negative impact on this year's—1996—deficit and future debts?

I think we need that kind of impact analysis that shows us very concretely and very clearly and very specifically that these indeed will be the benefit of a major move of that kind; otherwise, I don't think anyone in the Legislature can in good faith vote for a budget the basis of

which lacks the kind of concrete evidence that is needed in order to persuade the Ontario taxpayers that the tax cut is warranted.

I've given the clerk two copies of the chart and I would like you to take a look at that. The first one is entitled, "How Much Will Your Household Get From A 30% Tax Cut?" It clearly shows that people in the higher income tax brackets will receive the largest portion of the tax cut and that people below the Stats Canada poverty line receive next to nothing or very little. I think it's important to take note of that, Mr Chair and members of the committee, and I would urge, before you make your recommendations, that the committee insist that the treasury and other people in the government be required to table studies that show that the 30% tax cut, as outlined in the Common Sense Revolution, will indeed have the benefits that Mr Harris claims it will. Frankly, I would like to see statistics that contradict this. If this is contradicted, I'll be glad to withdraw it.

The second one shows who will benefit from a 30% tax cut, and those tables are very clear as well: 51% of the tax cut will go to households in Ontario with incomes above \$75,000 a year. I think that figure in itself illustrates that the tax cut in no way is guaranteed to have the job creation impact that the Premier asserted it would have when he answered the questions put to him by Mr Gzowski and the assertions that are made in the Common Sense Revolution.

So who benefits, who pays, what impact will it have on revenues, what impact will it have on current deficit and future deficit and debt, and what will be the net effect for job creation both in the short term and long term are essential studies that are needed in order to make a responsible decision with respect to the 1996 and future budgets.

Furthermore, on behalf of our organization I would like to make the point that should the government, as it has repeatedly said, insist that the 30% tax cut must be implemented as promised to the Ontario taxpayers during the election campaign and as defined in the Common Sense Revolution, then the government establish for itself two priorities. First, the overriding priority is that the tax cut be designated in such a way that it contributes to the elimination of homelessness, hunger, material poverty and unemployment, and that it does so by eliminating the 21.6% cut which in effect is a tax that was recently imposed on vulnerable social assistance recipients.

The first people who should benefit from a tax cut should be those who, without the consent of the Legislature, were suddenly faced by way of regulation with a new tax of 21.6%. There was no consultation, there was no debate in the Legislature, there was no committee that heard people who were directly affected by that 21.6% tax. So we're submitting that if the government insists on proceeding with the 30% tax cut, the first thing it should do is allocate some of the money to eliminate the 21.6% tax imposed on vulnerable social assistance recipients.

The second category of people who should get the benefit of the \$4-billion tax cut are those whose income is below the Statistics Canada poverty line. We say that in the context that it has been proven that poverty reduction policies by and large produce many more jobs

than wealth-creation measures. We have no guarantee that when someone in the \$95,000 bracket gets a refund of \$3,715, that person will spend it in Ontario on products and services that will be guaranteed to create the jobs that Mr Harris and the government have been talking about in the Common Sense Revolution.

We propose therefore that this tax cut be implemented through the elimination of income tax now being paid by people below the poverty line and by substantial reforms to the sales tax credits so that these people who must, in order to survive, spend all their money on housing, food, clothing and other daily necessities, expenditures which have an immediate beneficial impact on job creation, be the first beneficiaries, next to those who have been subjected to a 21.6% tax, and that thus the \$4 billion, if the government insists on spending it, goes to those people who are the most defenceless, the most powerless, the most marginalized in our society.

Those are the common people, those are the ordinary people, those are the people who now hang on for dear life, not knowing what the next day will bring. If we are to provide some hope in their desperate situation, then the government, together with the non-government sector, must do everything possible to eliminate the despair, the homelessness, the unemployment, the desperation that is widespread and that caused the death of some people this winter due to the cold weather and the inadequate funding of shelters for people who are homeless.

So we call for integrated policies, for a round table that deals with the integration of those policies, for your committee to conduct hearings to make sure that these ministry decisions don't go forward separately but that there is a cross-ministry analysis, and that studies be tabled to demonstrate how the \$4 billion could best be spent, if the government insists on spending it, in the interests of people who are now desperate.

Thank you. I'd be glad to answer any questions that you may have.

1520

Mr Wettlaufer: I am like you; I have a great concern for the truly impoverished, and I want to stress "truly impoverished." I received a letter from a Catholic priest on Friday, and he said basically what I feel. I want to comment that this man was a teacher for 31 years in a Catholic high school and he's now in his third year as a parish associate.

He said he supports paying a nominal fee for prescriptions, even for welfare people, that "if many can afford to smoke, they can afford this." He says: "Show me a poor welfare family. I know some poor low-income families.... I am sure you do not want to neglect the truly poor. Please keep your eyes open to their real needs.... You might need more social workers to teach some of these people to spend their money more wisely; to be able to separate 'needs' from 'wants.'"

I will agree with you that there are many people on welfare who need our support, who need our help, and who are hurting as a result of the cuts, and I can assure you that many of the people in our government want to do something about them, but there are many others out there who are not the truly impoverished, and those are the ones we are trying to address.

Mr Vandezande: Thank you, Mr Wettlaufer, for making that comment. I don't know whom you're quoting.

Mr Wettlaufer: I will be happy to tell you. It's Father Ray Reitzel, CR.

Mr Vandezande: The point we're making is that when need is demonstrated, as the statistics of the government demonstrate and as Stats Canada demonstrates and as the statistics that I've tabled today demonstrate, then we need to address those needs. We're not saying that the government must accept total responsibility for every act that every citizen of Ontario engages in, whether it's for good or for bad, but the government does have a fundamental public justice responsibility to see to it that the material needs, the housing needs, the income security needs, the child care needs—we have about half a million children living in poverty—are met as best the government can. It cannot meet those desperate needs best when it unilaterally, without hearing those people, imposes drastic cuts to the tune of 22% on those very vulnerable people whom you and the Catholic priest and I and all of us are concerned about.

There's no question about it, there are people both outside of government and within government who waste money, and it's our citizenship responsibility and our personal duty to talk to people about such waste. I'm here to remind you, as a citizen, that you as a government have the public responsibility to see to it that as far as you're concerned, no one is going to be homeless, live in poverty in this province, and that the basic provisions are supplied by both the government and the non-government sector to ensure that people can live out their dignity in this province.

Ms Castrilli: Mr Vandezande, let me compliment you on the clarity and the passion with which you speak. I, like you, am someone who thinks there is a role for government to play in a society that prides itself on justice and fairness for all.

You spoke about the tax rate reduction, and I think that is a good point for us to address here. The government is committed at this point to the tax rate reduction. They view that as their job creation strategy and they're pledged to create 725,000 jobs. With any luck at all, they'll do it and they will be able to affect those individuals who are now suffering.

I'm wondering if you could focus for a moment on a statement that you made that deals with the difference between poverty reduction measures and wealth creation measures, because I think that's the critical point. If the government goes to all this trouble and in the end there is no net benefit to our society, there aren't the jobs that improve the quality of life for all of us, then one has to ask oneself, why do it? Could you comment on that?

Mr Vandezande: If you would pick up this chart for a moment and look at the people who live below the poverty line—and the poverty line, of course, varies depending on the size of the family. Let's assume that we have a four-person family. In the city of Toronto the poverty line is about \$31,000 or \$32,000. That family needs every single cent in order to survive: on housing, on clothing, on food, on medicine; you name it. So it would spend all of its tax cut locally because it can't go

anywhere. It needs that money in order to buy the groceries, pay the rent, the utilities etc. So that money is spent at local suppliers in the local community.

Let's go to the bottom of the chart. The person who earns \$95,000, who has already been able to look after all of his or her living expenses and then gets a bonus of \$3,715, is not forced to spend that money in the local community in order to survive. He or she may say, "I'm going to put it in an RRSP and get a further federal tax credit as well as an Ontario portion of the tax credit," or, "We're going to make a trip to Haiti, some nice resort, or we're going to go to Hawaii, or we're going to go to Europe on a ski trip." None of that money, potentially, could be spent in Ontario. It might all be spent abroad, or it may be simply used to reduce indebtedness.

The most likely result with giving money to people below the Stats Canada poverty line is that they will spend it locally because they have no choice in the matter; they can't leave the city. That will create employment opportunities for those who are engaged in those industries on which these people are dependent for their supplies and groceries.

They should do an impact analysis or a comparative analysis to see how moneys are being spent by people in those different categories. There are some available, and I think the government may want to look at them before implementing its commitment in the CSR.

Ms Castrilli: I think your point about impact studies is well taken. We've been trying to get some basic financial information from the government just to be able to give the government some advice with respect to the budget, and that's not been forthcoming. It is something of some concern to us here on the other side of the government benches.

Mr Vandezande: The other thing, if I may add to it, is I think with all our concern about deficit reduction and debt reduction, I cannot imagine a political party or a government that has made that a top priority in its election campaign not producing statistics demonstrating what a \$4-billion cut in revenue will do to the long-term debt situation and how it proposes to cope with that. You can't have the cake and eat it too. You have to make up your mind what your priority must be. I think it's essential that therefore you have an integrated approach to public policy. There is a potential benefit from a tax measure of that kind, but you have to ask who benefits. What does it do to the economy, what does it do to the debt, what does it do in the long term to the economic and social infrastructure that we talked about previously?

Ms Lankin: You may know that in previous years there's been an attempt by the Ministry of Finance and the then Minister of Finance to open up the whole process of budget consultations and budget-setting exercises, and this year we've just seen the door slammed closed. We've not been provided with any information, economic data in terms of medium- or long-term projections on revenues or expenditures. Given the government's promise for a 30% tax cut, we have asked for some of the documentation that you've just referred to. We specifically asked the minister, who said there were a number of options of how that could be implemented, to provide us with some examples of those options and

with some of the costs to loss revenue so that we could give him some advice on that.

I think, quite frankly, the government have got themselves boxed in a corner on this promise. I think the Treasurer recognizes that. He has on a number of occasions attempted to give himself some room to talk about, "Well, perhaps it wouldn't be 30% across the board," I think for the very reason that you have articulated. Finance officials have told him about all of the consumption studies that show that high-income, high-wage earners will take that money and either reduce indebtedness or will invest in savings or offshore luxury items, and it's not the same assimilative value as if you loaded that up down at the low end of the income scale, where that money becomes disposable income and immediately is recirculated in the economy. I think he's hearing that, and I think he's tried to soften it, but every time he does, the Premier pulls him in line and says: "No, it's 30% across the board. It'll be half in year one." There's no give there.

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In your travels, you've had a petition out there which I think is very important, because it says, "Don't do the tax cut until you deal with the issues of poverty and unemployment and until you deal with the deficit." What kind of response are you getting from Ontarians to that message?

Mr Vandezande: Interestingly enough, the initial response was very good. The support for that petition, which argues that there should be no tax cuts until the debt and the deficit can be reduced and until poverty and unemployment have been addressed, which is circulating province-wide, stepped up when Bill 26 was introduced, because then suddenly many people realized that all these amendments that proved to be essential in order to have some legislation passed—and we still don't know what the final impact of that legislation will be—that the government's credibility is really on the line. Many people increasingly doubt the government's credibility with respect to this 30% tax cut across the board without distinguishing between who really needs it and who doesn't. The support for the province-wide petition campaign is growing rapidly. I think that's also shown by the polls. People say, "We are prepared to trust the government if it puts all its cards on the table, if it tells us exactly what this legislation is all about."

I think we have another potential omnibus confrontation coming when the budget documents beforehand, and the time that the budget is tabled, do not really show in detail the radical impact that the government's measures will have on poor and vulnerable people. No one is advocating that the so-called lazy bums in our society be given a golden handshake, but we are talking about human beings who are desperate in their situation and who need help and deserve help because they are our neighbours.

The support for the petition is growing: Catholic, mainline, evangelical, all kinds of faith communities, including the Jewish, Buddhist and Islamic communities. There is going to be substantial public support that is being registered with the Premier. It was communicated to him when he met with the bishops the other day that

the religious community will not take lying down a further violation of the humanity of the most vulnerable people in Ontario.

I'm not talking about violence; I'm talking about the kind of deep, religious concern that many people have that for the first time in the modern history of Ontario since the Second World War a government dares to ignore the thousands of families and the hundreds of thousands of children that live in desperate poverty. The religious community will rally. The polls will demonstrate, and so will the mail to the Premier, that this stance of being uncompassionate, of being merciless in the face of such stark social misery is totally unacceptable if we talk about the common good and giving common people some common hope.

The Vice-Chair: Mr Vandezande, on behalf of the committee, thank you for your presentation today.

GLAXO WELLCOME INC

The Vice-Chair: The next delegation is Glaxo Wellcome, Mr Bill Laidlaw, please.

Mr Bill Laidlaw: Thank you, Mr Chairman and members of the standing committee, for giving me the opportunity to appear before you today to participate in your pre-budget consultation process. My name is Bill Laidlaw. I think many of you may know me. I'm the director of government relations for Glaxo Wellcome Inc. I'm pleased to be here today to offer the comments of Glaxo Wellcome Inc on the budget process and our views on the economic factors facing the province, our company and the brand-name pharmaceutical industry in Ontario.

First, I would like to provide you with some background on our company. Glaxo Wellcome Inc is one of Canada's largest research-based pharmaceutical companies, generating sales of approximately \$380 million annually.

Glaxo Wellcome operates two facilities in Ontario, a head office in Mississauga and a manufacturing plant and development laboratories in Etobicoke. In total, Glaxo Wellcome employs more than 1,100 people in Canada. In the past seven years, Glaxo Canada, now Glaxo Wellcome, has more than tripled its workforce, with 80% of its employees located in Ontario.

Glaxo Wellcome specializes in and is a leader in many therapeutic areas, including asthma, migraine, gastroenterology, oncology, epilepsy and anti-infectives. We invest more than \$50 million in research and development, including \$10 million in basic research in Canada annually, through partnerships with companies, academic institutions and support of independent researchers, 54% of which is invested in Ontario. We support fellowships at several universities, including the PharmD course at the University of Toronto.

The economic climate in Ontario: As the cornerstone of the government's economic policy, the provincial budget has a direct impact on the ability of companies such as Glaxo Wellcome to compete in the global marketplace. In recent years, the brand-name pharmaceutical industry in Ontario has been negatively affected by economic and labour policies that have discouraged

investment and increased the costs of doing business in the province. Glaxo Wellcome supports the direction of the government to improve the economic climate in the province.

I am here today to present our views, as a major brand-name company in the pharmaceutical industry, on the critical components necessary to improve the economic climate in Ontario, create jobs and increase economic growth. These components include balancing the budget, reducing government spending, eliminating regulatory and legislative barriers to job creation and reducing the tax burden. I would like to speak briefly to each item as it relates to Glaxo Wellcome.

(1) The balanced budget: The Ontario government currently pays nearly \$9 billion annually in interest on the provincial debt, which is approximately \$100 billion. This staggering amount is crippling the ability of the government to deliver core services effectively to people across the province. While governments of all stripes over the past 15 years—Tory, Liberal and NDP—must assume a share of the responsibility for contributing to the size of the provincial debt, this government must make a commitment to address the size of the debt and work towards balancing the budget. For Glaxo Wellcome, working towards balancing the budget and getting the province's finances under control are vital to fostering new growth and job creation.

Balancing the budget must be a primary goal of the Ontario government. We support the government's commitment prior to its election eight months ago, in the Common Sense Revolution and in its Fiscal and Economic Statement released in November of last year, to balancing the budget by the year 2000-01. We believe that adopting this goal and taking tough measures to achieve it is crucial to restoring private sector confidence in the provincial economy and attracting new investment.

This is particularly important to Glaxo Wellcome Canada, as we compete with other Glaxo Wellcome companies worldwide for investment and product manufacturing mandates in addition to competing with other brand-name companies in the pharmaceutical industry sector. Balancing the budget is an important component to demonstrate to our parent company in Great Britain that Ontario is a good place to do business.

(2) Curb government spending: Cutting government spending is an important part of achieving a balanced budget and improving the provincial economic climate. The government has stated clearly that it plans to substantially reduce government spending in areas that are not its core responsibility but will maintain health care spending at \$17.4 billion. While we support the government's decision to maintain funding in the health care sector, we believe there are substantial administrative savings that can be made within the Ministry of Health and can be reinvested in other areas where they are most needed.

For example, Glaxo Wellcome believes that there are ways to reduce the administrative costs of the Ministry of Health, particularly in the Ontario drug benefit plan, and spend smarter. Some of these areas include—and, Frances, you probably have heard them before.

Ms Lankin: A couple of times.

Mr Laidlaw: Yes, but I'll give them again.

Eliminating silo budgeting: We support the elimination of silo budgeting to enable cost savings to be carried over from one division of the ministry to another. This would allow savings from reduced hospitalizations and physician visits from new medications covered by the formulary to be realized. Companies are required to submit pharmacoeconomic data when applying for reimbursement on the ODB formulary. However, the current budget structure within the ministry does not allow the Ministry of Health to recognize cost savings from new medications in other areas of the health care system. Glaxo Wellcome, along with the Pharmaceutical Manufacturers Association of Canada, is interested in working with the ministry to address this issue.

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Secondly, eliminate interprovincial duplication and increase harmonization: The current approval process for obtaining coverage for drugs under the Ontario drug benefit program involves a significant amount of unnecessary and costly regulatory and administrative duplication with the federal health protection branch. Reducing the regulatory duplication would result in improved access for patients to new medications, enable companies to bring products to market quicker and could reduce administrative costs for the government.

Thirdly, the need for greater transparency in the submission approval process: Glaxo Wellcome believes that making the review process more transparent has advantages for industry, the Ministry of Health and the drug programs branch. Making the review process more accessible will result in fewer requests for information, phone calls or meetings from the industry to branch officials on product-specific questions. An improved, open process will result in a faster review of submissions, facilitate more efficient decision-making and reduce the time patients have to wait for new, important medications. In fact, the ODB approval process could be eliminated if the health protection branch were to conduct the detailed product review and the Ontario drug benefit program was left to conduct a pharmacoeconomic review and determine reimbursement.

Bill 26 gives the Minister of Health the ability to make funding decisions that will lead to increased savings in the health care sector. We made a presentation to the committee reviewing Bill 26, commenting on the changes to the Ontario Drug Benefit Act and the Prescription Drug Cost Regulation Act.

(3) Eliminating regulatory and legislative barriers to job creation: The third element that we believe is important for the provincial government to pursue is to eliminate the regulatory and legislative barriers that currently exist to job creation. We support the government's repeal of Bill 40 and the reform initiatives it has undertaken on the workers' compensation system in Ontario through Bill 15, the Workers' Compensation and Occupational Health and Safety Amendment Act and the long-term review under way by the Minister without Portfolio, Cam Jackson.

We are also encouraged by the announcement of the Red-Tape Review Commission to review regulations

affecting businesses in Ontario and the review of agencies, boards and commissions. We look forward to the opportunity to participate in both of these reviews.

Reducing the tax burden: Ontario's tax burden is among the heaviest in North America. In addition to balancing the budget, controlling spending and eliminating regulatory and legislative barriers to business, the government must provide some tax relief to Ontario businesses and the public. The excessive burden has driven away investment and limited the private sector in its ability to create jobs and foster economic prosperity.

For example, the provincial corporate tax rate in Quebec is up to 6.6% more favourable than it is in Ontario. In other countries in which our overseas affiliates operate, the corporate tax rates are substantially lower than even the best rate in Canada.

Glaxo Wellcome recognizes the government's commitment to reducing the personal income tax by 30% in three years. However, we suggest a cautious approach to lowering taxes, which includes examining all taxes, including payroll taxes, corporate income taxes, and working with the federal government to harmonize provincial sales tax with the GST or its replacement. Through this approach, the government can provide the economic climate conducive to job creation and investment while at the same time meet its deficit reduction targets.

In conclusion, the 1995-96 Ontario budget provides the government with an opportunity to demonstrate that it is committed to improving the investment climate in the province by remaining committed to balancing the budget, curbing government spending, eliminating regulatory and legislative barriers to job creation and reducing the tax burden for people across the province.

The government does not have to attempt this alone. Private sector companies such as Glaxo Wellcome have expertise in a variety of areas, such as restructuring, and can assist in delivering programs more effectively and efficiently, which would be beneficial to government. We would be happy to work with the government to meet your objectives.

Thank you. I'll be pleased to respond to any questions you have at this time.

Mr Kwinter: For those members who are new to the Legislature and new to the committee, you should know that Bill Laidlaw is one of the most conscientious, if not the most conscientious, representative of an industry. I can tell you, you will see lots of lots of him, and I don't say that in any negative way. I just want to congratulate him for his diligence in doing his job.

Mrs Marland: You and I were both at the official opening of the new office.

Mr Kwinter: That's right.

Ms Lankin: There was more than just the two of you there.

Mrs Marland: I'm sorry. And the minister.

Ms Lankin: Thank you.

Mr Kwinter: You can have the comments in someone else's time.

First of all, I want to tell you that I support the idea of getting rid of the duplication. It makes no sense to me why the findings of the federal agency that regulates

drugs as to the efficacy of the drug and the safety of it should not be applicable to all Canadians. We have that group doing it and then every province doing the same thing. It just doesn't make any sense and. As I say, I have no problem with that.

But I do have a question for you, and I don't to put you on the spot.

Mr Laidlaw: It's all right.

Mr Kwinter: You said, "The excessive burden has driven away investment and limited the private sector in its ability to create new jobs and foster economic prosperity," and you used an example that Quebec is up to 6.6% more favourable than Ontario. Given all of that, how do you account for Glaxo's mammoth investment in Ontario over the last three or four years?

Ms Lankin: It was their excellent relationship with the previous government.

Mr Carr: The member from Mississauga.

Mr Laidlaw: That's right.

The interesting thing is that a lot of these investment decisions were made a long time ago. We made that investment decision, to put in over \$200 million into Mississauga, about 10 years ago. At that point in time, as you recall, the investment climate was quite different. As time has progressed, and it's not only in Ontario but the rest of the economies internationally, things have changed somewhat. But we were dedicated. We had faith that things would get better. We worked with your government under Mr Peterson. You were at the opening, Monte, with the Premier. The same with Mr Rae. Both of you were in England talking to our international chairman about how things would get better, and that's the reason why we're continuing to invest in Ontario.

We're hoping that this government and future governments will create a regulatory environment that's conducive for investment, because you want more multinationals like Glaxo Wellcome locating in Ontario. The spinoff is unbelievable in terms of jobs and prosperity for people of all classes. All three governments have tried to work with us on that. This most recent government is perhaps working a little harder in terms of its debt and deficit reduction and creating a more conducive regulatory environment for brand-name pharmaceutical investment.

Mr Kwinter: I acknowledge that if you have a more favourable tax regime, it's going to be a plus, but I also feel very strongly that that's only one component of the decision. Regardless, if you had to make the decision today, you probably still would come to Ontario, because Ontario is the largest buyer, through the ODB, of pharmaceuticals in Canada. It has got the largest market; it certainly makes no sense to be somewhere other than where your largest market is.

Mr Laidlaw: If I may answer that, Quebec does have a very favourable environment, as you know. They have a couple of things. You get access to formularies for R&D investment, you have a tax-free holiday for graduates in science for two years, you have capital write-offs that are second to none. As well, you have the tax regime. They have the pharmaceutical industry as a focus, one of the four industries they focus on. They bend over backwards to make you locate in Quebec.

We didn't. We had Burroughs Wellcome, which we took over last year. We decided we were going to be selling the Burroughs Wellcome plant and consolidating everything in Ontario. It's in part due to the fact that governments like yours and Frances's and this new government have worked with us. We'd still like to encourage this government to continue to work with us to make those regulatory changes, which are the most important ones.

Ms Castrilli: Mr Laidlaw, I'm struck by the comments you make on page 6 with respect to advice that you give to the government about taking a cautious approach to lowering taxes. You say you recognize the commitment to reduce personal income tax by a 30% rate. I'm not sure whether you're saying in that paragraph that the government should move away from that. You do say there's a need to look at a whole series of taxes and tax reductions. Do I understand you correctly?

Mr Laidlaw: I'm also vice-president of the Ontario Chamber of Commerce. Many of you people have heard, "Sustainable government, competitive taxes, competitive regulations." I want to encourage the government to keep up with its commitment to have that 30% tax cut, but there are other things it should factor in, and I've pointed those out in the brief. It's not as simple as that. There are other things that make Ontario maybe less attractive for other sectors than for ours, and they would include payroll taxes, corporate income tax, the GST, PST and other things. I want this government to hold fast to what it said and to make that commitment and live up to it.

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Ms Castrilli: Are you saying that the 30%, though, should also include these taxes, or is this in addition to—

Mr Laidlaw: These are other things that they should factor in, yes.

Ms Lankin: Bill, you know that there's a whole lot that you presented around silo budgeting that I agree with you on. I'm not going to touch any of that. Let me follow up on some of these issues around taxation. I guess, in a sense, you just introduced your second hat, your role in the Ontario Chamber of Commerce. Are you saying that you want them to proceed with this 30% tax cut even if that means they don't make their deficit targets?

Mr Laidlaw: We believe and I believe, having been in this game for a long time, that no matter what government's in power, it has to reduce the debt and the deficit. This government believes that if it makes that 30% tax cut, it will allow the economy to be stimulated to such an extent that job growth will occur. I'm saying here that we'd like them to factor in other things that they should consider, which I just pointed out.

Ms Lankin: Okay. But Bill, you know me well enough; I'm going to try and push you, as you have me for many years, to get an answer. If their deficit reduction target is in jeopardy, like many of us believe it is, given the fiscal numbers right now, do you believe they should proceed with the 30% income tax cut if it puts off the day of reckoning in terms of the debt and deficit?

Mr Laidlaw: We think they should, yes.

Ms Lankin: That's interesting. Is that the position of the Ontario Chamber of Commerce as well?

Mr Laidlaw: I'm speaking just for Glaxo Wellcome. I'm but the vice-president, policy, for the Ontario chamber; I only give them advice.

Ms Lankin: I find that interesting, and let me tell you, I disagree with you absolutely. I think the majority of the business community is saying to this government: "We want you to stick to your promises, but if it is jeopardizing the deficit or the debt reduction project, if it's going to push it off past the year 2001 before we get to a balanced budget, particularly in light of the potential of another recessionary cycle, don't do it. Don't be foolish." The Dominion Bond Rating agency, all sorts of other businesses that I'm hearing from are saying that, so I'm surprised at that position.

Mr Laidlaw: I think they can do both. I think it's possible. I think too, if they made a commitment in their Common Sense Revolution, they should live up to it.

Ms Lankin: That's true; that I would agree with you on. I think they should have made realistic commitments to begin with, and I would disagree with your, with all due respect, Pollyanna-ish assessment of what they can accomplish.

Mr Laidlaw: We have faith.

Ms Lankin: Good; I'm glad.

Let me ask you about your comment around tax competitiveness. I want to read a couple of things into the agenda, because again, I'm sorry, I think too many people come forward and just say, "We are not competitive; our corporate taxes are not competitive." All the data that we are provided with from the Ministry of Finance says we are. When I look at international comparisons in terms of the G-7 countries, they show Canada and Ontario favourably compared. In fact, we have more generous research and development tax incentives in Ontario compared to G-7 countries.

If we look at corporate tax burden for manufacturers, we are generally competitive with the US. Our combined corporate income tax rate for Ontario manufacturers is 35%, compared with the average rate of 40% in the US, and we can look at tax depreciation rates on equipment being very much in line with the US. If you look at payroll taxes, which you mentioned, and employer-paid health benefits for new employees, we're 27% lower than Quebec, 49% lower than the average in the US. You mentioned a specific comparison on corporate income tax for manufacturing with the province of Quebec, and you're right: In terms of interprovincial comparisons, Quebec is in fact the third-lowest; Ontario is the fifth-lowest. There are five provinces that are higher than us. While they are lower in Quebec than us, when you combine capital taxes and payroll taxes, our capital taxes and payroll taxes are lower.

I just want to challenge this assumption that we are totally uncompetitive in our tax. It would be nice to lower them overall, but let's not blow it out of proportion in terms of the differences between jurisdictions.

Mr Laidlaw: As you know, and you were Minister of Economic Development, I am very involved with the chamber. We had the Queen's Park liaison. I also belong to the business research network, which consists of about 35 companies—Tayce Wakefield at GM, Norm Stewart at Ford, Laurie Harley at IBM—and we've done some

really interesting work in presenting balanced policy alternatives to your government and to others. We did do a comparison of different jurisdictions. We did it to your deputy and all your managers and directors. The figures we presented were different than the ones that the government has. They didn't agree with our figures, and of course we didn't agree with theirs, but ours demonstrated that Ontario as a jurisdiction could improve in certain categories.

Ms Lankin: I'm sure that's true.

Mr Laidlaw: We just arrived at our figures, perhaps differently than you did. We did offer to work together with your officials, but that never happened. The government fell; I think that was the case. We want to work with Mr Saunderson's ministry as well.

Ms Lankin: Bill, could I just tell you that in fact these aren't figures that were produced during the time of our government. In fact, these are figures that were produced in September 1995 under the current Conservative government; I just wanted to clarify that.

Mr Laidlaw: Well, we're willing as a company, and I know many of my colleagues in the industry are, to work with this government and work with opposition to demonstrate where we're not competitive and to work towards making those corrections to make it more competitive, so you can get more Glaxo Wellcome here.

Ms Lankin: That would be helpful.

Mrs Marland: Mr Laidlaw, it's always an opportunity when you appear, or a representative of Glaxo appeared in the past, to congratulate the company on its being a contributing and model corporate citizen in terms of its participation in communities throughout Ontario, and I don't miss that opportunity to do that again. We've always been very proud to have Glaxo in Mississauga and now doubly proud to have Wellcome as well.

I would like to ask you if the provisions and the changes that were made in Bill 26 will, in your opinion, help in the long-term provision of drugs. Obviously, when we're looking at our budget, as we are with this committee hearing, we are concerned about major levers that drive the cost of any of the programs that government in Ontario provides, and the provision of drugs is right up there with that challenge that faces government. Knowing that we also want our Ontario residents to benefit from the development of new drugs, do you now see that the changes our government has made so far will help in the long term with the access to drugs for the people of this province at the lowest possible price while the drug manufacturing companies can still spend the money to develop new relief for illness and disease?

Mr Laidlaw: As you know, Margaret, we work with the Liberals and the NDP in advising them and keeping them posted as to the newest developments at Glaxo Wellcome and in our industry. It seems pretty clear that the problem is utilization. Many people say, "Oh, it's the high cost of your drugs," but I think Minister Wilson, who by the way seems to have a very good understanding of his ministry, recognizes that that is the problem.

Many of the steps he's taken in Bill 26, which we commented on earlier, are ways in which they can control utilization—the overutilization of medications on the part of seniors and welfare recipients. I think the NDP

government brought in the Trillium plan. You have section 8s. You have a number of ways in which you can get at helping people who need these newest medicines. The user fee: The response that we've been given and we would concur with is that that's going to be an effort to control utilization. It's a small amount, but it's going to cause patients, doctors, pharmacists to realize that there is a cost element to this whole piece. By looking at those savings, that's going to allow the government to have more money to put into putting some of the newest medicines on the Ontario Drug Benefit Formulary, and we've seen examples of that with products like 3TC. We are the makers of 3TC and AZT.

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Mrs Marland: Does it help the industry to develop the new medicines at the lowest cost?

Mr Laidlaw: Yes, it does, and I think the message your government is sending to our particular company is that you're working to improve the regulatory environment in Ontario so that we can spend more money on R and D and add more jobs in this province.

Mr Ford: Mr Laidlaw, Bill, I'm impressed today. You remind me of the Jolly Green Giant from this side of the House when you say that—and I know you're a very intelligent person and you're in favour of the reduction in government spending and cutting the deficit. Not only that, you say that your company's invested \$200 million in new plant and equipment, which I am very impressed with, because that shows intelligence.

People complain about the cost of drugs, which I consider rather high, but now I've seen both sides of the story. I went into a plant and had an extensive tour, watching their research, a huge lab, and watching them make drugs in Ontario. I went through all that and I was quite impressed, and looking out, they had the landscape there on which they've already built a couple of plants and they are building another huge addition, similar to your type of situation. So it impressed me again.

What I would like to say to you is that after seeing these people in operation, I asked them what was the potential of hiring more people. They said, "Right now we have opportunities for 50 graduates," right here in this one plant, that they can't seem to find the qualified people for, and you're probably running into the same thing. So I say, if these people have that much confidence in Ontario and they're talking about reducing the deficit, then that's the way this government should go.

I'm pleased to have you here today, Bill, because on their export dock, which is probably similar to yours, I could see the jobs there. When I say I could see the jobs there, I looked at all the various countries they were exporting drugs to, over 100 different countries that these drugs were going to, manufactured right here in Ontario. These are the things where I say we're in a positive step, positive attitude, and we have to keep this up.

Mr Wettlaufer: Bill, you mentioned here that while governments of all stripes over the past 15 years must assume a share of the responsibility for contributing to the size of the provincial debt, this government must make a commitment to address the size of the debt. I want to emphasize that while we take a hit all the time from the opposition party and the third party for being

the same party that did that 15 to 20 years ago, we don't forgive it, we don't condone it. We are trying to rectify it, but part of the rectification is in restructuring. You talk here about eliminating silo budgeting, and I wonder if you could explain that a little bit, please.

Mr Laidlaw: I've been around here, by the way, since the late 1960s, so that's probably longer than even some of you people have been here. In looking at silo budgeting, I think it's an example in the Ministry of Health in the drug programs branch that could apply to others. I'll take for example Imitrex, which is a medicine for migraine. It's still not on the formulary. We've been trying to get it on for over five years. We can see savings in other budgets—home care, hospital care—but because there's no saving immediately in the ODB, they're not going to factor those in. The same thing could be said for some antibiotics we have, for some chemotherapy drugs.

Minister Wilson has recognized that it's a problem and he's looking at it, but when you look at drug therapy today—for example, many of you will have ulcers, if you haven't got them already. No one does any surgery now for ulcers; you take medicine. It could be Losec or Zantac. That's going to be the case for the future. We can save health care dollars. No submission into the ODB now can go in unless it has a health economics component demonstrating where it's going to save money, and that's a positive thing. I think this government should focus more and more on that.

Mr Wettlaufer: So this would tie in with our restructuring efforts.

Mr Laidlaw: I believe it would. Someone said to me today, "Good government policy." I don't want to defend the Tory government, but they introduced the patent bill which is coming up for review next year, and they said to our industry—we said to them, "Let's work together." They created a pricing forum, the Patented Medicine Prices Review Board, which demonstrated that we cannot exceed a price on our drugs over the CPI every year; as well, they regulated what the introductory price would be. They also said that 10% of your sales would go into R and D. That's good government policy. We took it a hit to that, but Ontario was the beneficiary of that policy.

The Chair: I'd like to thank Glaxo Wellcome and Bill Laidlaw for your presentation today.

ONTARIO ASSOCIATION OF INTERVAL AND TRANSITION HOUSES

The Chair: The next presenter is the Ontario Association of Interval and Transition Houses, Ms Morrow. Welcome to the committee. We have 30 minutes.

Ms Victoria Roth: Good afternoon. My name is Victoria Roth. I am the president of the Ontario Association of Interval and Transition Houses. I'd like to thank the committee for allowing us to speak this afternoon.

Ms Eileen Morrow: My name is Eileen Morrow. I work for the association. I'm the lobby coordinator of OAITH.

Ms Roth: We've brought with us a brief which I hope you all have a copy of. This outlines our concerns and recommendations for this committee. Attached to the brief you will find a document. We are not going to read the entire brief to you but we will highlight certain

sections that we feel are particularly important and we hope to leave some time for your questions.

Ms Morrow: I will read some of it, because we tried to write it in a concise way so we wouldn't go over our time, hopefully.

The Ontario Association of Interval and Transition Houses is a 70-member coalition of services working with women who experience violence, and with their children who witness it. The majority of OAITH members are first-level emergency shelters for abused women and their children.

For many years now, OAITH members have provided a range of services to abused women and children all over Ontario. Those include 24-hour safe shelter and security; 24-hour crisis intervention by phone, within the shelter or in visits; emergency transportation; one-to-one crisis counselling and supportive group counselling for both women and children. We provide referral to other community supports for women; supportive liaison on behalf of women and children to other community systems they need; housing search support for women who are attempting to escape violence; support and assistance for women who need to negotiate the legal system; community coordination and cooperation to end violence; community education and prevention work, including the education of professionals, students, media, a whole range; consultation for public policy development, program creation, academic research, media, community response, education and so on. These are provided usually within each and every shelter in Ontario to some extent.

OAITH itself, through the volunteer labour of women throughout the membership and from all regions of Ontario, also provides many services.

As you may already know, the province of Ontario has eliminated 100% of the funding for our group, so I don't think I'll take up the time listing all of the things we do, but they are there for you to look at.

The many hours of volunteer work provided to the community by OAITH members, both within the services themselves and within OAITH, have come from an intense and very sincere desire to eliminate violence against women and children across Ontario. Many women and children in Ontario today live free of violence because of the significant contribution of their work. However, we have a long way to go.

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Last year, almost 30 women in Ontario were shot, beaten, burned, strangled or stabbed to death by husbands, common-law partners or boyfriends. In many cases, children and other family members or friends were also murdered. Over the last five years, over 165 women that we know of have been killed by their partners, and these are just women who were reported in the public press. While many women are murdered, many, many more survive in situations of terror and despair. Their children are often born into a crèche of violence and they grow up learning its power and its price.

The costs of violence fan out from the abuser not only to his victims but to his children, family and the community. They take their toll not only in the present but into our future. Individual women and children of course pay the highest price, sometimes with their lives. They

also pay with the quality of their lives, the loss of their liberty, their identity and their right to pursue happiness and self-determination. The community itself feels the loss of their contribution to it: their ideas, work, knowledge and all of the positive efforts they might have been able to make if they were free to access their right to participate in Ontario.

Violence costs financially as well, both to women and children and to the community economy. The London, Ontario, Centre for Research on Violence Against Women and Children has determined that the partial estimated financial costs of violence against women total over \$4 billion a year in Canada, over 87% of it from state funds. The authors of the London study state: "There is no lack of financial justification for why funding for violence against women programs and initiatives should continue...reductions to intervention and prevention funding may not provide meaningful savings to provincial and federal governments. Instead, reductions to services and programs could have enormous economic 'ripple' effects, leading to increased costs in other services and programs." In other words, the costs of intervention rather than prevention are high. The financial cost to government and communities will be even higher, however, if funding is reduced.

The London study is one of what must now be thousands of studies and surveys on violence, including violence against women by their partners. We have studied causes, consequences, and impacts on women, children and abusers themselves. We have studied violence in specific communities of women in different parts of the world. We have studied responses to violence in every imaginable system and program. We have even studied the funding of services for addressing violence in Ontario. Some of that material has ended up on the desks of this committee in past years. The accumulated material on the subject, if brought into this room, would fill it to overflowing.

We have studied that strategy for stopping violence since the Progressive Conservatives last held office in Ontario, and we have funded and we have provided countless hours of consultation. I have listed here some of the major consultations and work that's been done in the province of Ontario under all three political parties that have sat in the House. I won't read them. Throughout those processes, OAITH has been a participant, from the very first social development policy report under the Progressive Conservative government in 1982 right up to the last committee that was sitting at the Ministry of Community and Social Services, the accountability framework reference group. Those meetings have been discontinued under the present government.

From time to time OAITH has made presentations to the standing committee on finance and economic affairs. In 1991, we outlined our alternative vision for funding, including a recommendation we had proposed to implement legislated 100% block funding for shelters and for other services for abused women and their children by 1990. At that time we outlined our definition of core services to this committee, a definition which had been created as a result of extensive consultation within our membership with front-line women's advocates and with abused women themselves. We specifically explained the

needs being identified by abused women and their children in shelters and we provided that report to this committee at that time, as we have done to you today. While that document is now out of date, it is so only in so far as it reflects inadequately the list of services we now know are needed to end violence against women and children.

After the public pre-budget consultations of 1991, the standing committee on finance and economic affairs recommended that the funding formula for shelters be reviewed, with a view to implementing block funding of shelters by 1991 or 1992.

When women today look at Ontario's response to the violence they experience in their homes, what do they see and feel? Do they see a committed government leadership, acting with integrity and purpose for their safety and freedom? No, they do not. Do they feel supported and protected as valuable members of their community and province? No, they do not.

What they do see in a new Ontario is just like the old Ontario. They see:

- Elimination of all funding to second-stage programs in Ontario, leaving hundreds of women and children now stranded without the support they need to leave violence;

- Reductions of already dismally inadequate funding for first-stage emergency shelters;

- Elimination of funding for education and prevention, the cornerstones of the elimination of violence;

- Dangerous reductions in social supports needed by abused women in order to leave violent partners and to protect themselves and their children;

- Reductions to local governments that could seriously endanger women's human rights and safety if passed on to those services that address violence;

- Reductions in funding to legal aid, user fees for legal aid applications and changes to legal aid policies that limit women's access to needed legal support and advice during times of high safety risk;

- Reductions or elimination of supports for women who face compounded discrimination and violence based on race, language, sexual orientation and disability;

- Elimination of funding for advocacy groups that have historically provided the valuable expertise, challenge and critical analysis needed to identify and implement effective measures to end violence;

- Introduction of mechanisms to allow increasing user fees in health, social and legal services that abused women and their children have a human right to access, regardless of their financial resources;

- Proposals to reinforce federal plans for block funding transfers with provincial block funding transfers that will further compound discrepancies in funding and service across Ontario.

The impact of these cuts on abused women and their children is devastating. Already, shelters across Ontario are reporting increasing crisis telephone calls, while at the same time women are staying with abusers or leaving the shelters to return to violence.

Women are asking for help in the shelters in deciding whether to pay the rent or feed their children, whether to buy medicine they need for themselves or pay for clothing for their kids. They are wondering how they can leave abusive situations when there is little safe housing

to go to. They are at a loss to know how they will become self-sufficient and independent of abusive partners when they cannot access child care services, education or employment opportunities in Ontario. They ask how they can hold accountable abusive partners when legal aid policies are restricting their access to both family and criminal courts, while child support collection programs may be reviewed and restricted and while criminal courts are being downsized in Ontario. Women are reporting increasing depression and thoughts of suicide. It is now not uncommon for women to call shelter crisis lines and speak directly about their fears about the future and their survival under the Mike Harris government. This is not acceptable.

Shelters are also reporting increasing anxiety and depression within shelter staffs themselves as they struggle to find hope for the women and children who reach out to them. Staff cutbacks are resulting in diminishing services and increasingly unmanageable workloads for counsellors. Some programs in first-stage shelters have been ended as shelters attempt to provide basic safety and crisis intervention for women. Shelters fear that their services will become nothing more than a way for women and children to briefly delay the inescapable harm, or even perhaps death, they will suffer at the hands of violent partners. This is not acceptable.

Prevention and education work, the work that might provide an end to the violence and escalating costs incurred through it, has also been devastated now that government has refused to bear any share of the cost. This is not acceptable.

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Because emergency shelter services have been so notoriously underfunded since their inception, if municipalities pass on to local services like shelters the two-year, 47% reduction in cuts of their funding that was outlined in the economic statement in November, we will not be surprised to see some first-stage shelters in Ontario close their doors within the next two years. This is not acceptable. This is not acceptable to us and it should not be acceptable to the province of Ontario. It is not the way to go.

When a particular political party takes office, it does not receive an unrestricted mandate to do whatever it likes. There are provincial, national and even international laws and agreements under which public bodies must operate. I've just listed a few of them here:

The Canadian Bills of Rights, section 1(a), section 1(b): These rights guarantee to all Canadians the right to life, liberty, security of the person and the right not to be deprived of those. It has sections that guarantee the right of all individuals to equality. The Charter of Rights and Freedoms guarantees the same rights, and guarantees the same rights to all citizens.

These guarantees are not part of a wish list. They are the law in this country. Contravention of them, in our opinion, constitutes breaking the law. We believe that regardless of the recent legal decision disfranchising low-income women and children from a minimum level of support for basic needs, women and children whose lives are at risk as a result of public policy decisions, and even backtracking on publicly given promises of support, will

fare better in the courts, should they decide to invoke the laws of this land in their defence.

Canada, in addition to having its own legislation, is part of international agreements in all of these human rights for women and children. Some of them include the Universal Declaration of Human Rights, the Convention on the Elimination of All Forms of Discrimination Against Women, the Declaration on the Elimination of Violence Against Women, the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights and the Convention Against Torture and other Cruel, Inhuman and Degrading Treatment or Punishment. These are agreements and instruments that we agree with, not only just to support morally, but we are directed to provide the services specifically and the laws and supports specifically to ensure that they occur.

It should not be difficult to conclude that the current policies of cutting back services affecting all women and children who are experiencing violence in Ontario contravene these responsibilities as well as those of the Canadian Bill of Rights and the Canadian Charter of Rights and Freedoms, and constitute ample grounds, we believe, for legal challenges against this government on behalf of abused women and their children.

If the government of Ontario is unwilling to honour its legal obligations to prevent violence, or to protect and provide intervention for women in the province, or is unmindful of the costly legal challenges that may result, we would think that it would at least be prepared to follow the mandate outlined by the Progressive Conservative Party during the election—the job description, so to speak, of the premier and his partners in cabinet.

Documents of the Common Sense Revolution, including *New Directions*, Volume Three: *A Blueprint for Justice and Community Safety* in Ontario and others, described the approach this government was planning to take before the election to address violence against women and their children. While the approach indicated in these documents fell far short of addressing the needs identified by abused women and their children in Ontario, it made promises and provided some details for their implementation that were intended to appeal to people living in Ontario and presumably to persuade them to vote for a Progressive Conservative government.

Among the Common Sense Revolution promises designed to solve the problem of violence was a promise to increase shelter services in Ontario. The documents of the Common Sense Revolution also promised to bring in a Victims' Bill of Rights that would ensure "social services, health and medical treatment, legal and counselling assistance" that was "responsive to the needs" of victims. The documents spoke of the desperate need to stop studying violence and take action. It promised to listen to victims and the Ontario public's increasing desire to have government address violence against women and children. The list of budget and program cuts outlined at the beginning of this brief is proof enough that the Progressive Conservative government of Ontario has betrayed its own commitment to women, children and the people of this province.

Instead of increases in shelter services, we have seen decreases. Instead of bringing in a Victims' Bill of Rights

ensuring "social services, health and medical treatment, legal and counselling assistance...responsive" to victims, we have seen cuts to social services most used by abused women and their children, cuts to health care and legal services and layoffs of counsellors and advocates across the province. The future promises only more cuts, unless this government decides to respect the human rights of women and children, to enforce the legal and moral commitments that are enshrined in our laws and to honour the contract the Progressive Conservative Party itself made with the people of Ontario before it was elected.

Ms Roth: At this point in the presentation it is customary to make some suggestions for addressing the issues laid out before its members. At the same time, it is problematic for us to make recommendations today when those made in the past, from a genuine expertise and experience in the issue, have not been implemented or indeed even advanced to an adequate extent. Our commitment to the women and children who call and visit shelters and to women who die before they have that chance, however, compels us to continue trying to influence the actions of every public institution affecting the daily lives of women experiencing violence.

Our recommendations for this committee therefore are:

That the current committee members unanimously endorse the recommendation of the 1991 standing committee on finance and economic affairs to review the shelter funding formula with a view to implementing 100% block funding for all services identified by all abused women and their children as responsive to their needs;

Failing that, that this committee recommend to the Premier and the cabinet that all funding reduced or eliminated from second-stage shelters, first-stage emergency shelters, counselling programs for abused women and their children, education and prevention programs, training programs for justice system personnel, social assistance and housing subsidy, child care subsidy, legal aid, health and all other programs and services affecting the ability of abused women and their children to address or escape from violence be restored immediately and that a moratorium be placed on all further cuts that would negatively affect women's ability to leave violence;

That in keeping with requirements in the UN Declaration on the Elimination of Violence Against Women, funding for women's advocacy groups such as OAITH, as well as others who work to end social, political and economic inequality, be immediately restored in order to facilitate cooperation between them and public policymakers in the development of policy and programs to effectively address and to eliminate violence against women and their children in Ontario.

We would like to thank the members of this committee for the opportunity to make this presentation and we really hope that you will seriously look at it. Thank you.

Ms Marilyn Churley (Riverdale): It's quite clear to me and to many people now that the Harris government is putting abused women and children at risk for the sake of a 30% tax cut which is mainly going to benefit the wealthy in our province.

Having said that, I want to make a quick point about violence against women and children. There are some

who say, "Why is it different from other kinds of violence?" It's really, really important that we understand that violence against women and children in their very own homes is so insidious and so profoundly sad because it is the one place, in the bosom of our families, where we should feel safe. God knows, if we can't feel safe there, where can we feel safe? I just wanted to make that fact, because I have heard some government members at times say, "Why is it different from other kinds?" and that's why.

I want to ask you a quick question. There has been the suggestion, and I know I've written a letter suggesting the Attorney General designate some moneys from the victims' surcharge fund to second-stage housing and/or shelters. Have you heard back?

Ms Morrow: No, actually. We haven't heard any information about the victims' assistance fund. We have a meeting scheduled with the Attorney General, and that will be one of the things we will speak about on the agenda when we meet with him because he read the bill. But we haven't received any word on any moves that are being made in that regard.

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Ms Bassett: Thanks for your presentation, and we do care. I know it appears we don't and I know we come from different points of view politically, but let's try and work together. The Minister of Finance wants to get ideas. I would like to say, and I don't mean it to sound harsh, if you had to cut back your area—we pay \$50 million into women's shelters and whatever now in the violence against women programs—should we take from somewhere else? It doesn't have to be from women. I'm not saying take it from there. Where would you take it?

Could you help us out? We were elected on a mandate to cut back spending and so we feel that's the direction we're going to go. We could take from somewhere else and make sure you get it. Where would you suggest taking it? And within your organization, is there a way you could restructure and deliver anything, even with our help, more efficiently?

Ms Morrow: Gee, that's a big question. We have already, for instance, suggested that the victims' surcharge fund might be used in a more effective way to shore up the services that are being cut and that there has to be some recognition that certain kinds of services, specifically ones that address the human rights of women, men and children in Ontario, need to be protected. Those things need to be identified as human rights issues, and once they are protected, then if you need to look at things you can look at things after those protections are in place. That regrettably has not happened.

It's difficult for us, and I'm not even sure that it's our role to tell the government where to find the money. We have made the suggestion that the victims' assistance fund needs to be reinvested back into the situations, particularly the second stages right now that have lost their funding. If something isn't done about them right away, they're going to be gone.

That has already been suggested. We haven't seen any movement on that, and to be really honest with you, we would like to see some show of good faith. We would like to see some movement on the suggestion we did

make. I'm not sure it's useful to make more suggestions when the one we did make has not been acted upon, even though the minister responsible for Community and Social Services, when we met with him, indicated that he was prepared to reinvest. But we haven't seen any action, and action, as you know as well, is very crucial.

Mr Kwinter: Thank you very much for your presentation, which really outlines the major problem the group you represent is facing. One of the big problems, of course, is that everybody has a problem with the idea that we've got to do with less and all of these things. It would seem to me that the one area where government could really make an impact is in prevention and education.

You could say that different levels of government, municipalities, regions, should take some share in the problem in their particular area. It would seem that governments traditionally have taken a look at the educational aspects to try to prevent these abuses, and I totally agree with you it's unacceptable that this isn't being done. It would also seem that there are lots of people who are tolerating abuses they shouldn't be because they don't know that there is help for them. In your education and prevention program, what is going to be the impact if you can't do that?

Ms Morrow: You may have read in the Star today the article that talked about homicides and domestics in North America being reduced as a result of services, education and protocols within systems being put in place. I haven't seen that study, needless to say, but if it turns out to be true, that that's in fact what those kinds of numbers are showing, then we have proven and continue to prove that education and prevention programs like shelters and protocols are working to reduce the violence and the cost of violence.

When we're talking about reducing, we're nowhere near stopping violence, but we were on the way and if we begin to reduce those supports, and particularly if we begin to reduce education and prevention, then we're simply ending up responding to the problem after it's finished, after it's over, and this is not what we want. What we will then begin to do is to reinforce ongoing, intergenerational violence; in other words, where the younger generation learns the same violence and continues to enact that violence on others.

Education is one of the cornerstones and we all know that's true. You can't change unless you know that change is necessary and you know that change is possible.

The Chair: Thank you very much for your presentation to the committee today.

CANADIAN AUTOMOBILE ASSOCIATION ONTARIO

The Chair: The next group we have is the Canadian Automobile Association. It's a pleasure to welcome you to the standing committee.

Ms Pauline Mitchell: This is Mr Nick Ferris with me. Mr Ferris is the manager of public and government affairs for CAA Central, which is here in Toronto. I'm with CAA South-Central, which is in Hamilton, formally known as the Hamilton Automobile Club. Mr Ferris and

I are both members of the CAA Ontario public and government affairs committee.

CAA Ontario is the federation of 10 not-for-profit automobile clubs in Ontario representing the motoring and travelling interests of over 1.6 million members and their families.

On behalf of those members, we request that the Ontario government recognize that mobility is the cornerstone of modern society and that the private automobile is the principal means of mobility for Ontarians, in fact most Canadians.

Our presentation today is a plea that the upcoming provincial budget allocate the necessary funds to protect the road safety of Ontarians as motorists, passengers and tourists, and that motorists not be regressively taxed for the purpose of generating general revenue.

We urge the government to set an example to other levels of government by drafting a budget that protects the automobility of Ontarians through positive economic measures. CAA Ontario believes an opportunity exists for this government to dramatically influence the prosperity of our province and the safety of our citizens with the forthcoming budget. Whether that influence is positive or not will depend, in part, on the economic instruments introduced that directly affect Ontario's nearly seven million drivers.

On the subject of gasoline taxes we have two recommendations. The first recommendation is: no further gasoline tax increase. Ontarians already pay an excessive amount of tax on fuel. Ontario collects nearly 15 cents per every litre of fuel sold in this province. That's 14.7 cents for each of nearly 12.5 billion litres of gasoline sold in Ontario. This is in addition to the fuel tax plus GST collected by the federal government. More than half of the pump price of gasoline is taxes collected by the Ontario and federal governments. Fuel tax is a regressive means of generating revenue. Some experts suggest that gas taxes are in fact a form of job tax. If getting to work costs too much, low-paying jobs may not seem worthwhile. This is a direct contradiction of the Ontario government policy to encourage people to work.

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Make no mistake: There is a direct relationship between employment and cars. A Transport Canada study shows that many people would find it hard to earn a living with no automobile: 75% of commuters rely on their automobiles to get to work, and 57% have no other option. Some say they could not work at all without an automobile, including some who have to haul heavy equipment with them from job site to job site, or those who spend much of their workday on the road. With violence against women on the rise, many women choose to travel by private auto, rather than public transit or walking, for the security it offers.

With funding cutbacks expected to impact on both the cost and the level of service of transit, reliance on the private automobile will not diminish. Fuel taxes discriminate against motorists because they burden a single activity, and funds much needed for road repair are diverted elsewhere. Fuel taxes should not be used to reduce deficits or to obtain revenue for general expenditures.

CAA Ontario's second recommendation regarding fuel tax concerns the revenue already being collected. The

government does not need more gasoline tax revenue; it needs to spend the revenue already being collected on our crumbling roads. Our second recommendation, then, concerning fuel tax is that a trust fund be established dedicating fuel taxes to reinvestment in our roads.

There is no argument that our roads need an infusion of revenue. The Provincial Auditor identified 60% of Ontario's roads as substandard in his last report. Substandard roads lead to a number of problems, including greater congestion, more accidents, less efficiency for people and goods moving by road, and increased vehicle operating costs. Roads must become a higher funding priority for all levels of government. Right now, our road systems are crumbling from neglect. Many of our roads are at the end of their 15- to 20-year design lifespan and are not being properly cared for due to funding cutbacks.

While CAA Ontario stresses the urgency of fixing roads, CAA members do not want more taxes. They are very supportive, though, of dedicating the taxes they already pay to reinvestment in our road systems. In a survey of CAA members, 93% agreed with a highway trust fund as an option for upgrading our roads. The national highway policy study showed that road users are paying far more in taxes than governments spend on roads. From 1983 to 1987, federal and provincial road-related revenues exceeded expenditures by nearly \$8.9 billion. Trust funds could put that money to use upgrading roads for greater mobility. Investing in our roads would create jobs, spur economic activity and reduce traffic fatalities and injuries, which in turn would lessen the demand on our health services.

It should be acknowledged that Ontario is not the only level of government collecting fuel taxes. At the present time, two federal committees are recommending increases in federal excise taxes on gasoline be introduced in the next federal budget. That raises the possibility that Ontario motorists will face additional motoring costs imposed by the federal government. Federal fuel taxes have increased by 566% in the last 10 years, and motoring costs are escalating much faster than the rate of inflation. We urge the provincial and federal governments to recognize that they are each regressively collecting from the same taxpayer. CAA Ontario urges the provincial government to negotiate with the federal government a way to reinvest federal fuel tax revenue back into the national highway system.

Not only do fuel taxes impact on Ontario motorists, they also impact on tourism, our second-largest industry. Gasoline prices are frequently cited as an aggravation by tourists as they make their way to Ontario destinations. Increasing fuel costs for tourists will discourage travel to and within the province, and may lead more Ontario motorists across the border for their gasoline purchases.

In 1994 Ontario introduced a 5% tax on automobile insurance, this at a time when premiums were skyrocketing with double-digit increases due to the impact of Bill 164. New legislation on automobile insurance is expected to stabilize the rate of increase in the cost of premiums, but no one has suggested the new legislation will lower rates motorists are now paying. Ontario continues to collect the 5% tax on every premium. Without attempting to discuss the merits or

detractions of the proposed legislation at this time, CAA Ontario urges the government to remove the 5% tax on mandatory automobile insurance for Ontario's approximately seven million motorists.

While automobility is affected by the affordability of operating a vehicle, it is also impacted by other factors including road safety. CAA members have identified impaired driving as one of their greatest road safety concerns. In a recent CAA public policy survey, when asked to name the two issues most important for CAA among a list, 30% of members selected drunk driving as the most important issue and another 20% selected it as the second-most-important issue.

Last fall Ontario introduced its road safety program and promised new measures to deal with impaired drivers, including introduction of administrative licence suspension legislation. This is a very positive step; however, the problem of impaired drivers will not be solved simply by legislation. Sober driving programs like RIDE are an essential element in the effort to remove impaired drivers from our roads. Cuts in transfer payments to municipalities have increased the possibility that RIDE programs will be scaled back or eliminated. CAA Ontario recommends that sufficient provincial funds be allocated in the budget to police services throughout the province, specifically for the continuation of RIDE programs.

Another road safety concern is unsafe trucks. In October a coroner's inquest made 31 recommendations to overhaul trucking operations to improve the safety level on our highways. CAA Ontario recommends that the inquest recommendations be given priority in the budget and that the funds required to implement the inquest recommendations be made available.

CAA Ontario appreciates the opportunity to speak with you today. To summarize our recommendations quickly: no fuel tax increases; fuel taxes already being collected be dedicated to a trust fund for reinvestment in our roads; removal of the 5% tax on mandatory automobile insurance; specific allocation of funds to police services for RIDE programs; allocation of funds to implement the coroner's inquest recommendations regarding truck safety. Thank you very much.

Mr Jim Brown: Last Saturday night while coming back from a kids' hockey game near London, a driver was wavering all over the road on the eastbound 401. It was just awful, frightening. I followed him for about seven miles before the OPP got him. I think it was one of the most horrific things to watch everybody dodging him and at the same time feel totally helpless.

I know in the city of Toronto some of the people who are behind the Santa Claus parade have come up with a program for corporate sponsorship of RIDE programs. I think it's \$1,000 a night. That's a very commendable thing, and I think you people could help out in that regard. But I'm wondering what else we can do. Can we confiscate the car of the impaired driver if he's convicted, sell it and put the money back into the RIDE program? What else can we do to cut down on impaired driving?

Ms Mitchell: It's an immense problem. In a survey of our members we find that the public is not terribly sympathetic at all to the plight of the impaired driver. In

fact an overwhelming percentage are prepared to even waive the idea that people should be presumed innocent. The idea is that the public generally supports moves like administrative licence suspension. The public is tremendously concerned about the number of people who continue to drive with a licence suspension, and I think in that case the public again is not necessarily opposed to measures like impounding vehicles.

But it's a complex, complex issue and although we support the idea of partnerships on programs such as RIDE, and I know that many CAA clubs are involved in just such partnerships, we do believe that more money needs to go into the enforcement, there must be more visible police presence on our roads, and programs like RIDE should be visible at more times of the year than just Christmas.

1650

Mr Hudak: I notice in your presentation you recommend no new taxes on fuel and I know CAA is a very broad-based membership. In your surveys or your own information, do you think the members of CAA—let me phrase this differently. The Ontario federation of women's teachers last week recommended a tax hike as a way of balancing the budget. Do you know if the members of CAA in general support—I know they're against a tax hike on fuel, but do they support tax hikes in general?

Ms Mitchell: To be quite honest with you, we've surveyed them more about their feelings on fuel taxes. That's what we would have information about.

Mr Hudak: Fair enough. Just thought I'd ask the question. Earlier today we heard from Don McIver, an economist, who talked about the very low levels of expenditures on automobiles and houses and those long-term consumer investments, and he related that to high levels of taxation in the economy and high levels of deficit spending. Would you anticipate that a lower level of taxation in the economy and balancing the budget may reverse that trend? We may see more automobile purchases and maybe more members for the CAA?

Ms Mitchell: I think you're likely to see an economic boom with less taxation. There are a number of people now who say, "I could afford a new car but I couldn't afford the insurance on it." There are a number of considerations, and the high cost of operating an automobile does keep on increasing. I believe in 1995 the increase for operating a new vehicle was up by about 5%, which is again above the inflation rate. The year before that it was an even higher gap between inflation rate and the cost of operating a vehicle. So it's had a negative impact, I think.

Mr Hudak: I guess the converse would be that with the auto insurance reform this government has embarked upon and a lower level of taxation, the economy would probably replace an aging fleet of vehicles and do well for the auto industry.

Ms Mitchell: And newer vehicles will be better for the environment as well.

Mr Hudak: Thank you. That's all from me, Mr Chair,

Mr Spina: As a CAA Plus member for over 20 years, I applaud a lot of the moves that the CAA has made over the years, particularly in the unsuccessful lobby to stop

the 90-foot limit for trucks. However, regarding road safety, currently the limit in Ontario, the GVW, is 130,000 pounds, and that's the highest in any North American jurisdiction. Do you think considering reducing the gross vehicle weight on a lot of these transports could do two things: (a) make it safer and reduce some of the destruction on the roads and (b) make the trucks safer? Do you think that would be a valid consideration?

Ms Mitchell: I don't recall the exact figures on it, but I know that the estimated damage to the roads is considerably higher from trucks than from cars. I certainly think that you need only follow some of the very heavy trucks on the highway to witness for yourself some of the destruction to the pavement.

Mr Crozier: Just to add to one of the comments that was recently made about reduced taxes, I look at a chart here today that if you earn more than \$95,000 a year you're going to get about \$3,700 a year back. I don't know whether that person would be buying any more new cars or not. On the other hand, if you're in the neighbourhood of \$45,000 a year, you're only going to get \$700 a year back, and I doubt very much if that would encourage anybody to buy a new car.

But I do share your report in that it was concise. I think you've made your position known very clearly. With regard to the 5% tax on automobile insurance, many people feel that automobile insurance is a legislated necessity; in other words, it's illegal to drive without it in the province of Ontario. Therefore, it isn't fair, nor is it perhaps equitable, that you have to pay the 5% tax.

It was our suggestion some six or eight months ago that removing the 5% tax on automobiles, which I think would be in the area of about \$260 million a year, would relieve in some small way the cost of driving for every automobile owner in the province of Ontario, and that would mean whether you earned \$95,000 a year or whether you earned \$15,000 a year. Had you thought about that in the line that in fact it does spread a cost reduction evenly over many consumers in the province?

Ms Mitchell: Yes. We think the 5% tax is particularly inappropriate right now. When so many changes in recent years regarding automobile insurance have led to such skyrocketing prices for premiums, it's totally inappropriate to have that 5% tax added. You're correct that removal of it would have a widespread general benefit.

Ms Castrelli: I'm interested in the questionnaire, the survey that you did, particularly around the issue of a trust fund. I must confess that I probably wasn't one of those assiduous members of yours that answered it, so that's probably why I don't recall the discussion.

But we had a presentation earlier last week from the Good Roads Association and they indicated that the cost of maintaining or repairing a road was in the neighbourhood of \$85,000 per kilometre and that the price of rebuilding it outright was in the order of a quarter of a million dollars per kilometre. I found those figures staggering. I had no idea it was that high. I wonder if you've thought about that and whether the trust fund, as you envision it, would cover the lower figure or the higher figure.

Ms Mitchell: Certainly when you consider the sheer amount of tax that is being collected now, if you do the calculations on how much is being collected in Ontario

alone, both by the provincial government and the federal government in Ontario, the figures comes close to \$4 billion. That's going to repair an awful lot of roads and with some to spare. It will build some new ones, but I think right now with 60% of our roads having been identified as substandard, some serious remedial work needs to be done right away.

Mr Silipo: Thank you very much for the presentation. I want to start with the comments towards the end of your presentation around the RIDE program as one of the ones that you see in some jeopardy. One of the things that I certainly have heard from a number of government members is that the cuts to municipalities, they feel, won't affect cuts to police services, including this particular important one.

I obviously believe, as I think you do if I take from your presentation, that some of these programs are really in jeopardy. Are you getting any sense as you're keeping an eye on things across the province about where particularly there may be problems more than in other communities in terms of where these kinds of initiatives are under danger of being eliminated?

1700

Ms Mitchell: I can't name a specific community, but there has been sort of general talk that as police budgets are reduced, there's just less money. I know that in my own community there are far fewer police officers doing traffic duty than there were five and six years ago, that generally speaking there is a move towards more community-based policing, and those things are fine, but it then becomes problematic to come up with the manpower to stage RIDE programs in some cases.

Mr Silipo: The question of no more fuel tax increases: I certainly, for one, would support that. It may surprise you to hear that, but I would, and I hope that's something the government does look at, as indeed the question of the reduction or the removal of the 5% tax on mandatory automobile insurance. But I guess my question to you there is, given what the government is looking at, where they are in fact looking at cutting in a number of areas, do you have a sense that that's a realistic request they are prepared to make in terms of—I think as one of our colleagues pointed out, it does cost or would mean about \$260 million more the government would have to decide to find from somewhere else?

Ms Mitchell: We're very concerned at the regressive nature of fuel taxes and also that 5% on the insurance policies as well, but we've entered an era where "user-pay" seems to fall off everyone's lips quite easily, and I guess we're just trying to make the point that we feel motorists for many, many years have been paying and paying and paying, and user-pay may be fine, but not user-pay and pay and pay and pay and pay. Because there are so many motorists, I think people sort of zero in and say, "There's a bunch of people we can collect some money from," without understanding or taking into account how unfair that is to a great many people.

The Chair: Thank you very much, Ms Mitchell and Mr Ferris, for coming in today and making your presentation. We thank the Canadian Automobile Association.

That brings us to the end of the presenters today. I understand that we have some housekeeping business to take care of.

Ms Bassett: I have two motions that I want to put forward. I've already talked to the members opposite about it.

The Chair: You'll do one at a time?

Ms Bassett: Motion 1: I've spoken to the subcommittee members opposite about the issue of the advertising re auto insurance hearings and, as such, I move that the deadline for submissions to the auto insurance hearings in Thunder Bay, Sault Ste Marie and Ottawa be extended to February 20 and that one newspaper ad run in each of the above locations as soon as possible to indicate the time extension.

The Chair: We have the motion. Is there discussion? Would you like to make a short statement?

Ms Bassett: I think it's self-explanatory.

Mr Crozier: I wasn't sure whether you needed a seconder. If so, I would, and if you don't, that's just fine.

The Chair: No, we don't need a seconder apparently.

Ms Bassett: Thanks anyway.

The Chair: All in favour of that motion? Carried.

Ms Bassett: The second motion is, given that there are 86 people or groups who wish to appear on auto insurance in Toronto and only 81 spaces, I move that the committee agree to extend the time in Toronto to accommodate the extra five witnesses or presenters, and it's already agreed by the subcommittee members that the submissions be limited to 20 minutes each to accommodate the large number of presenters.

The Chair: Any discussion?

Mr Crozier: Common sense.

The Chair: All in favour? Carried.

Ms Bassett: Thank you.

The Chair: To clarify, that was the same ad that we ran previously?

Ms Bassett: Yes, it is, with the exception you're changing the dates.

The Chair: Thank you. We will do that.

Mrs Marland: I just have a question, Mr Chair. Looking at the schedule for this week ahead, the question I want to raise is the fact that Thursday morning, February 15, those of you who have your agendas in front of you will notice that all that morning we have the banks including the bankers' association, before the committee. Based on previous experience, I think it would have been more desirable to have had the variance of opinions integrated throughout the whole week and I'm wondering if there was a reason that the banks were all put together on Thursday morning by the clerk's office.

The Chair: It was my comment as well that I would have liked to have had those people up front, at the very first of the presentations, so we would have the benefit of where they saw the economy going. However, this came about because of their own request. We asked them to attend and they indicated that they could attend given this time frame.

Mrs Marland: Are you saying that the Royal Bank of Canada, the Bank of Nova Scotia, the Canadian Bankers Association and Canada Trust all made a request to the clerk's office to attend one after the other on one specific morning?

The Chair: No, that was the particular day that they wished to attend.

Mrs Marland: Then why were they all scheduled one after the other rather than integrated with other opinions and viewpoints?

The Chair: They wanted to go as early as possible on that day.

Mrs Marland: On the last day of the hearing?

The Chair: I don't know if it had anything to do with the last day of the hearing or not.

Mrs Marland: Could the clerk answer, please?

Clerk of the Committee (Mr Franco Carrozza): The individuals you have listed there, Ms Marland, requested the last day and we obliged them, with the exception of Canada Trust, which was a later addition.

Mrs Marland: Okay. So the Royal Bank, the Bank of Nova Scotia and the Canadian Bankers Association all asked to be here for the last day of the hearing?

Clerk of the Committee: That's correct.

Mrs Marland: That was their request. I still have to ask why they were put one after the other and why Canada Trust, if it was added—it made it even worse because they put them at the end of the morning. I'm asking the clerk, Mr Chair, to answer that question.

Clerk of the Committee: As I stated, they requested those times. When we spoke to them, we discussed the time, if they wished to change. They were quite happy receiving those times.

Mrs Marland: Did they know that they were all speaking one after the other?

The Chair: Not to our knowledge.

Clerk of the Committee: No.

The Chair: Is there a problem with them being—

Mrs Marland: There is a problem because we benefit from that kind of advice in pre-budget hearings of the finance and economic committee to be integrated among other opinions. The value, Mr Chair, I would suggest respectfully, based on my experience on this committee and in public accounts, is that if you hear from them spread over a number of days, it gives other groups an opportunity to respond to them, either positively or negatively or constructively. It's just a better flow of information.

These committee hearings are about getting information and I feel personally it's wrong to schedule them all together in a block, especially on the last day. I think we would have benefited from hearing from them earlier and other groups would have benefited by being able to respond to their contribution to our deliberations. I would suggest in the future that it not happen again because I'm quite sure the banks don't know that the other three of them are all appearing that morning. Well, the clerk's just confirmed that they don't know that they're all together.

The Chair: We don't know that, but we don't know that they don't know that.

Mrs Marland: He just said they didn't know. They just offered them the time. Is that correct?

Clerk of the Committee: You are correct.

The Chair: Your concerns will be so noted.

Mrs Marland: No, I'm just asking if it's correct.

The Chair: Is it correct?

Mrs Marland: It's correct that they don't necessarily know that they're all scheduled for the block on Thursday morning.

Clerk of the Committee: That's correct

Mrs Marland: Thank you.

Mr Kwinter: If I can be of some help, I would agree with Mrs Marland about the fact that they're appearing at the end, and that is probably a bit of a disadvantage, but on the other hand I would like to challenge one of the comments she made.

Traditionally what has happened is that we have invited the banks and other institutions—in the past I remember Nomura, the Conference Board of Canada—to send their economists to give us an idea of where they think the economy is going. It's on that basis that you get a chance to receive the other presentations in the context of where you think the economy is going, and it's quite dramatic, because you'll hear one bank say, "We think the economy is going to grow by 2%," and the next one comes in and says, "We think it's going to grow by 4%." Traditionally we have had that up front.

These are not banks making a pitch on behalf of the banks. They're their economists giving us their perception and their overview of where they think the economy is going, and it's helpful, I think, to the committee, and it has been the procedure in the past, that after the Treasurer or the Minister of Finance makes his presentation, we hear from the various chief economists of those people in Ontario who are in the best position to estimate where they think the economy is going. For this committee it is very helpful because everything that you hear thereafter you can in fact interpret in the context of where you think the economy is going. To have it at the very end is useful, but not as useful as if we had it at the very beginning.

I just wanted to dispel any feeling that there's some cabal out there and suddenly all of the bankers are ganging up. That is not the case and as I say, they don't even know, and it doesn't matter, because what they say has got nothing to do with what the others say and every bank and every financial institution that is on this list publish, on a regular basis, their projections of where they think the economy is going. What they're going to do when they come here is tell us what they think, they will distribute the material that's available to everybody else and we have a chance to question them on it.

So I don't you should read anything nefarious into the fact that, "My God, all the banks are coming together and I wonder what their agenda is." It's unfortunate and there must have been a valid reason why they weren't available at the beginning of our deliberations and they're coming at the end, but aside from that, I think that's the only thing you should really be concerned about.

Mrs Marland: I appreciate Mr Kwinter's comments and I would like to confirm that I wasn't reading anything nefarious into them coming together. That's why I wanted to confirm that they don't know they're all booked together. I'm just putting on the record my concern that the scheduling wasn't to the advantage of the committee, in my opinion, which would have been to have had them earlier and divvied out through a few days. Thank you for allowing me to raise my concern.

The Chair: Thank you very much. There being no further business to bring before the committee, we stand adjourned until 9:30 tomorrow morning.

The committee adjourned at 1713.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Chudleigh, Ted (Halton North / -Nord PC)

Vice-Chair / Vice-Président: Hudak, Tim (Niagara South / -Sud PC)

Arnott, Ted (Wellington PC)

*Brown, Jim (Scarborough West / -Ouest PC)

*Castrilli, Annamarie (Downsview L)

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*Hudak, Tim (Niagara South / -Sud PC)

*Kwinter, Monte (Wilson Heights L)

*Lankin, Frances (Beaches-Woodbine ND)

Martiniuk, Gerry (Cambridge PC)

*Phillips, Gerry (Scarborough-Agincourt L)

Sampson, Rob (Mississauga West / -Ouest PC)

*Silipo, Tony (Dovercourt ND)

Spina, Joseph (Brampton North / -Nord PC)

*Wettlaufer, Wayne (Kitchener PC)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Bassett, Isabel (St Andrew-St Patrick PC) for Mr Arnott

Carr, Gary (Oakville South / -Sud PC) for Mr Sampson

Crozier, Bruce (Essex South / -Sud L) for Mr Phillips

Marland, Margaret (Mississauga South / -Sud PC) for Mr Martiniuk

Clerk / Greffier: Carrozza, Franco

Staff / Personnel:

Drummond, Alison, research officer, Legislative Research Service

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finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



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LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRS

Tuesday 13 February 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO
COMITÉ PERMANENT DES FINANCES
ET DES AFFAIRES ÉCONOMIQUES

Mardi 13 février 1996

The committee met at 0932 in room 151.

PRE-BUDGET CONSULTATIONS
OLDER WOMEN'S NETWORK

The Chair (Mr Ted Chudleigh): This morning we are going to take another chance at having the Older Women's Network present to us. I do apologize for the interruption we had the last time that your group was before us when we had to adjourn. Today we have Etta Ginsberg-McEwan representing the Older Women's Network. We have 30 minutes. Would you proceed, please.

Ms Etta Ginsberg-McEwan: I do represent the Older Women's Network, but I also want to tell you, for what will follow, that I have the credentials. I have been a professional social worker for over 40 years. My most recent position was the director of social work at Baycrest Centre for Geriatric Care. In the States, which you can tell by my New York accent, I was the associate director of one of their largest medical centres. So I want you to know that for what I have to say, I have credibility.

I'm sorry more of you are not here. What I would like to start off asking you to do or to try to imagine is to listen with your third ear, develop one this morning, and your third eye, because your regular eyes and ears seem to filter out the pain and despair and the things you don't want to hear, and I'd like you to be able to hear me this morning. So therefore, listen with your third ear and look with your third eye.

I'm first going to quote from a book that I recommend strongly. It's paperback, it's inexpensive—Small Expectations: Society's Betrayal of Older Women, by Leah Cohen:

"The elderly in our society are generally rejected, but we are particularly disdainful of older women. The discrimination begins in infancy and escalates as we become mature women, but it doubles as we grow older, for then are we not only women, but old women, perceived as unattractive, unneeded and parasitical. In our 40s, when we can expect another 40 years of life, the double rejection begins. Yet a man in his 40s is perceived to be at the height of his attractiveness and desirability. He can anticipate another 25 years of active, productive life.

"The majority of women over 65 live below the poverty line. Most live alone in poor housing, having outlived or been abandoned by their spouses. They are the victims of indifferent, fragmented medical care and have a great fear of rape, mugging, street harassment, robberies and swindles." And you've read about that; you read about it almost daily.

"Older women are often lumped together by social service agencies, charitable foundations and religious

organizations, who generally make the condescending assumption that crafts, bingo and concerts are the only activities that older women enjoy and find satisfactory. They, as well as the rest of society, pay little attention to the fact that we become most individual and unique as we age." And I can tell you that as I've been aging, I've become most unique.

It is stressful to become an older woman. We can expect a loss of status and a sense of being useless. We are in danger of being pronounced senile. Fifteen per cent, and I think it's a little higher now, of women are termed senile, but that's because they have been over-medicated and understimulated and rejected.

I want to quote to you something because I am sick and tired of hearing about the baby boom. There was a woman who lived in a tiny room far from transportation on a subsistence income. Her only pleasure in life was attending adult education classes at a local community college. She told me that she was aggressively confronted by a male student of about 30 years old, "I don't want my tax dollars paying for your education," he said. "You're an older woman. Why are you taking a place away from a younger student who could take this education and do something productive with it?"

"I guess," she mused, "society wishes we would disappear, maybe drop dead at widowhood or retirement. If they could, they would line us up and shoot us," and that's a quote.

When I say I'm tired of hearing about the baby boom, too much has been blamed on older people, even the CPP, and yet another economist has come out saying that the CPP is in a fine state of affairs and that this is all either the media's fault for publicizing it wrongly or it's the government's fault.

All the poverty lines are somebody's subjective assessment of an income level below which people are defined as poor. But I don't think anybody asks people themselves what they think people need to live on. In a survey that was done some years ago by Health and Welfare Canada—it did a postal survey of 16,950 old age security recipients and had a very high response rate of over 70%—they were asked what they thought would be an adequate income at that time. Now it would be a little higher. The replies averaged out to \$10,600 a year. They were also asked at what income they could live comfortably without worrying about money. The average replied \$12,690. Then they were asked about their own incomes. For men, the average income was \$10,535. That's almost at the adequacy level for that year. For women, the average income in the same survey was \$6,785.

0940

I do not want to hear any further that we are a special-interest group. This has been the government's response to many organizations. It is divisive. You and I share the same interests. While I speak for the Older Women's Network, which is a voice for older Canadian women whose purpose is to overcome injustices and inequities at home, in the workplace, in communities and in society as a whole, we are deeply concerned and committed to the wellbeing of all people.

Getting back to special interests, let me tell you that you will grow old. No one escapes unless through an untimely death. You will suffer strokes, heart attacks, cancers, other chronic illnesses. Your children and grandchildren can easily become disabled through accidents or birth injuries. Every voter who goes to the polling booth has a special interest, so there are millions of special interests. Why else would they vote? So I ask you that you stop using this expression because you are polarizing people and groups.

Your budget tells us, tells the media every day to warn us of continuing devastating cuts. It is unrelenting, 24 hours a day. Despair and hopelessness and helplessness have become dark clouds that hover over us. It is hard to believe that Premier Harris and his cabinet were ever children raised by loving parents who must have instilled in them the need to respect and value every human being. Somewhere along the line they have lost their way, and I don't know how to get them back on track. You know, the track, Dorothy's yellow brick road in the Wizard of Oz, which spelled out hope? You don't speak to us well; you don't demonstrate sensitivity. There's some arrogance and condescension. Sometimes I feel that I want to offer my services because I'm one—there are many—one of the better social workers and advocates in Toronto.

Ernie Eves feels that his message is not getting across. That's not true. It is getting across. He spells "his"—I don't think he spells it publicly with a capital H, but the government, whether it be Snobelen, whether it be Tsubouchi, whether it be Mushinski, whether it be Mr Wilson, seems to spell "His agenda" with a capital H. But a capital H only belongs to a Supreme Being, God.

I guess you think that the people crowned you last June, but they didn't. What the vote meant was that there was confidence in you being a messenger of the Supreme Being and that you were going to be a protector of all people and a guardian of our needs. However, you have committed some sins by casting us aside—vulnerable children, vulnerable young adults, old men and women—by your continuous attack.

For seniors, the Older Women's Network is especially interested in funding for health care, drug benefits, housing co-ops, non-profit housing projects and so forth. The government economic statement which was issued in the fall suggests that \$1.3 billion will be saved by constraining transfers to hospitals: 4% in 1996-97, 5% in 1997-98 and 6% in 1998-99. That may have changed, but you're still going to take a lot away.

I have to tell you that much of my professional career has been in acute care hospitals. You probably do not experience this, but you need to know, and since there are many more women than men because, for whatever

we do, we live longer—I don't know why; we have so much aggravation with men. But I want to tell you that in the last few months it has been disgraceful what has been happening in hospitals and in emergency rooms, and maybe some of you have heard something from your constituents, that people have been discharged prematurely, some sent home in nightgowns and pyjamas in taxis, and they have been only readmitted, which has been more costly to the government. I'm not sure why that is happening, but there seems to be an atmosphere of uncaring.

The drug benefit plan: I'm really not such a sick old lady but I'm on a lot of medication. So I figured out that monthly the \$2 could come to \$18 a month, and the \$6.11 for the whatever you call that charge. Anyway, I figured that I could be charged, on the average, about \$850.88 a year. I'm using myself as an example; I'm quite sure I'll be able to manage that by cutting here and there. I do not possibly see how older women on welfare, on old age assistance with Gains—now, they get Gains because they don't have enough to live on—are going to manage. They're going to take it away from food, probably, or they will not take their medication.

Many senior women live in rental apartments. Some of the best-maintained have been the co-ops and the non-profit housing projects, where the rent is geared to income and the residents serve on committees which oversee a standard of maintenance for the buildings. If these kinds of housing are not developed with government funds, how will older women manage to live?

There are also many transfer payments to municipalities that impinge on seniors' lives. Services provided to seniors play a very valuable role and prolong ability to remain active and contributing members to the community. That you find in the excellent seniors' centres in various neighbourhoods throughout Metro Toronto, where they have very good instructors, volunteers and so forth. When people feel that they're not valued, they hide in their apartments, they become sick, and end up in the hospital costing the government more money.

Another area that we're very concerned about: nursing homes and old-age homes. Forget that I worked at Baycrest; that is an outstanding place. But most nursing homes and homes for the aged give the minimum service. I warn you very seriously that if you allow Metro or any other municipality to privatize homes for the aged, we will be in serious trouble. We are in serious trouble with the privatization of nursing homes.

0950

Now the most recent thing—do you see the pattern?—is the transportation. I cannot believe what is happening with Wheel-Trans. I wonder where all this money comes from. I called yesterday so that I would be sure I had the right information for you. There are 25,000 people on the Wheel-Trans list. Granted that there are some abusers—there are in every system; everybody abuses—they are going to spend money on contacting all 25,000 of us, including myself—I'm permanently in a motorized wheelchair—to verify. Do you realize what that's going to cost and what that money could do?

It's the same thing as reading in the paper this morning that Jim Wilson wants to get a card where it will have a lot of information about us. Now the figure may be

wrong in the paper—I doubt it—but it's \$1 billion. Where is all that money coming from? So when I think about it, I seem to feel that there are bushels someplace that you really could be using more effectively, because if you're going to give us cards, you're going to have to deal with the privacy information.

The government policies of slashing public spending on transfers and services will do little to address the growing feelings of economic insecurity and mounting government deficits. The middle class is shrinking. There is less stable employment, more temporary and part-time work, more frequent and longer periods of unemployment, and a growing pool of unemployed young people. For those in temporary jobs, six of 10 workers would prefer permanent employment—with good reason, for part-time and temporary workers have lower earnings, fewer benefits. You know all that.

The labour market is becoming increasingly polarized. People who have been de-engineered—which is the new word—out of their jobs at age 55, when they still have many more years of work, now find themselves competing with a lot of other people for work; and certainly the 55-year-old or the 60-year-old isn't going to get the job.

I think you heard last week from the Advocacy Resource Centre for the Handicapped that the demographics show that of people over 55 there's an increasing number who have become chronically ill, as opposed to those under 55. All of this illness—not all of it but a good deal of the illness has to do with the stress that one faces.

Now, you know that more and more families are falling below the poverty line, despite that some of them are working. Poor families in Ontario fell \$2.8 billion below the poverty line, and the poverty line figure is coming from the Fraser Institute. They fell below the line in 1993—those are the latest figures I could get—but it's even more now.

Continually cutting supports to society's most vulnerable members and increasing the income inequities among its citizens—you can't justify it on social and moral grounds. Most Ontarians—I can't say all because I've come across a few who don't give a damn—do not want to live in a society where a large portion of the population lives in poverty, even those who have considered themselves sheltered from the problems of poverty.

I suggest very seriously and sincerely that you give up this 30% tax cut. I have no idea, I cannot comprehend where the money is coming from, unless it's coming from the backs of all the programs that you cut. I don't think it's going to bring any jobs into the area. People are going to use it probably for another vacation in another country, which will get the benefits of our dollars.

But since you're offering a part of the population a 15% cut maybe in July and then the other 15% maybe next January, what are you offering the people whom you've cut? What are you offering them? Don't you think they should get a piece of the action? So I suggest that you not implement the cuts, because anybody with a conscience wouldn't want to have a tax reduction.

While I'm recommending and the Older Women's Network is recommending full funding back to the municipalities, continuation of drug benefits, getting Wheel-Trans and other TTC issues on track, restoring

some moneys to the social assistance payments, we know you can't do it all. We understand there is a deficit, but what we ask is that you think a little bit about where you make the cuts.

You know what it feels like when I talk to people? It feels to people who are vulnerable that you want them to go away and to get out of your faces and you want them to exist on bread and water. Now, I don't mean bread and water in terms of food; I'm using bread and water metaphorically, bread and water in terms of all activities of daily living which you take for granted every morning you wake up.

The Older Women's Network represents your mothers, your grandmothers, your siblings in generations to come. I consider myself accountable and responsible for what I do with people, and you too are accountable and responsible and will be held so. I thank you for giving me this opportunity.

The Chair: Thank you very much, Mrs McEwan. We have about four minutes left, total. Could we start with a brief question from the opposition.

Mr Monte Kwinter (Wilson Heights): Mrs McEwan, I was just delighted to have you appear before us. I'm blessed to have you contributing, as you have done, to Baycrest, which is in my riding. I'm also blessed that I have an excellent senior centre in the Bernard Betel Centre. But that certainly isn't what is happening around the province. I'm sure you'll recognize that those are two unique institutions that are a model for others to follow, but again, if the funding isn't there, it's not going to happen.

I also want to agree with your definition of special interests. I feel very strongly that every citizen of Ontario has a special interest, and that is to do the best for themselves, for their children and for the province.

A lot of what you talked about was very general. If there is one sort of message, one item that you think is the most important that this government should address for older women, what would that be?

Ms Ginsberg-McEwan: Can I have two?

Mr Kwinter: Sure.

Ms Ginsberg-McEwan: I may need three. Two would be the drug plan, that you rescind that, and that you do something about raising the social assistance program. People's souls get corroded day after day after day. I'm not talking about homeless people or people dying on the streets. I'm talking about another kind of death, which is a death of the spirit, and when you don't have enough money. Those two go hand in hand, the social assistance and the drugs, and if you want people to pay for their drugs, the \$2 fee plus the—well, welfare people won't be paying the dispensing fee, but if you want them even to pay the \$2—and I gave you an example of \$18 a month—then you have to do something about social assistance.

Mr Tony Silipo (Dovercourt): Thank you very much for your presentation, particularly I think for reminding us that there is really much more than just a human element to what is going on, that what is happening, if I've heard you correctly, is that we are not only threatening a number of basic services, but I would say we're threatening the very soul of the society we've developed over a number of years.

I thank you for reminding us in a very direct way about how those needs and concerns have to be kept very much in mind as the government, for understandable reasons, continues to do what it believes it needs to do in terms of the deficit.

I think, as you've said, we're not arguing about the need to tackle the problem of the deficit, but in doing that it's important we maintain the society we have developed, improve what we can improve, and not simply destroy piece after piece what we've built up over the years. We may have a balanced budget, if we do that, at the end of the day, but what we're going to have is a greater level of poverty. In fact, we saw some figures yesterday and on previous days that indicated, again very clearly, that the benefits of the tax cut will go largely to high-income Ontarians at the expense of middle- and low-income Ontarians.

The only question I have for you is that we are hearing more and more from people like yourself, and people representing a whole array of people, and themselves, who are bringing these things to mind. I have the sense that privately, members of the government are beginning to feel uncomfortable about what they are doing, but at the same time I see that publicly and to some extent even privately they still believe fervently that this pain is necessary. I just ask you again to add any comments you may have that might instil in them a sense of understanding that this is not the way to go, that this is in fact destroying the very fabric of the society we've built up over the years in Ontario.

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Ms Ginsberg-McEwan: Personally, I can tell you and you can use your imagination, I've been disabled most of my life, and every day to get up and go through the various routines is a drag and is a bitch. Now I wake up and I'm a little bit more apprehensive, a little bit nervous. I'm more anxious than I ever was, and I was trying to say: "Look, what are you so anxious about? You've been managing all these years."

I'm going to be 70 years old July 4, great American day. I worry that there won't be any help to get a motorized wheelchair, to get leg braces, to get the incredible amount of equipment that is necessary for me and other people to be able to stay in one's apartment. I worry about those things. We now hear, and it may just be a rumour, that the ADP, the assistive devices program, will be cutting back.

When you ask me, I'm telling you that I'm more anxious. Recently I had a checkup and the anxiety came through in my heart, with some problems, and I said, "Oh, boy, will I speak to Mike Harris about that." It's more anxiety, which I don't feel older people need. It's increasing worry, and the insurance isn't enough.

I think you would do yourselves a world of good if you just demonstrated by one thing, if you reviewed that social assistance—I'm not sitting here pie-in-the-sky. You can't restore 22% or 21%, but do something. Show that you have faith in all people, not just the rich, because that's the reputation you're getting, and that's not what you wanted when you were elected; that's not what you want. You're decent people and you don't want that.

Mrs Margaret Marland (Mississauga South): Ms Ginsberg-McEwan, I want to thank you very much for being here. You are a particularly inspiring person and I just think you're wonderful. When you talk about older women and age, it's so immaterial, when we hear from someone like you, and I'm thinking about Mayor Hazel McCallion, who is 75 tomorrow. You're all women who inspire all of us, regardless of gender.

We hear very clearly what you are saying to us this morning, and I would like to tell you that the easiest thing for Premier Mike Harris and his cabinet and all of us as members of the caucus would be to have done nothing. We're not popular, we know that, but what we're doing isn't to be popular; it's to be responsible for the future.

I was very encouraged by what you said. You said: "We know you can't do it all. We understand there is a deficit." I know you do understand that, when you said that the Older Women's Network is concerned about generations to come, and that's sharing what our concerns are. Premier Harris and the cabinet do value and cherish every human being. If they didn't, or if we didn't, we would sit back and let the debt spiral continue, which means in the long run we wouldn't have any money for even bare survival programs.

The question I have for you is, in terms of one area that you're concerned about—and shelter, after food, is the primary concern of everyone—you mentioned a concern about what the future will be without assisted housing. Would you agree with me that in the long term, if we have a program of shelter allowances where we directly give the financial support to the person who is eligible for that help, they then through their shelter allowance choose where they want to live, that rather than subsidizing a whole building of bricks and mortar, giving money directly to the eligible people to take with them to live in a building that may be privately owned, but the shelter allowance will help them choose where they can live and make up the difference in what they can afford?

Ms Ginsberg-McEwan: I don't know whether you know—the government did save the Older Women's Network's work on the co-op that's going to be built downtown, and that was one of the few that were saved.

I can't agree with that. I think really co-op housing is the way to go if it's at all possible. I think that if we're going to have rent controls done away with, shelter allowance will be in serious trouble. It won't be enough.

I hear what you're saying, that you do value. All I'm saying is that we live in a concrete world. People see things only concretely. So what I'm asking is that you come up with something that you can show those people who are not going to get a tax cut, something concrete. People scoff at what you say when you say, "We care." People don't find it, because they're worried and they don't have enough food and so forth. So while I respect those words, they don't help. You have to demonstrate something concrete.

The Chair: Ms Ginsberg-McEwan, thank you very much for your appearance today, and particularly for coming back after last Wednesday's experiences.

BRAMPTON BOARD OF TRADE

The Chair: Our next presenter is the Brampton Board of Trade, Mr Bob Malcolmson, policy adviser. Welcome to the committee. We have 30 minutes.

Mr Bob Malcolmson: Thank you for the opportunity to address the committee today. My name is Bob Malcolmson and I am the policy analyst for the Brampton Board of Trade. I'm here today representing the over 1,000 members of the Brampton Board of Trade, which employ some 60,000 people in Brampton and the region of Peel.

The purpose of the Brampton Board of Trade is to represent and actively promote the interests and profitability of Brampton business and its members. Three of the board's major goals are to build and maintain support for control of taxation and expenditures affecting the tax community of Brampton; to promote the most efficient methods, including privatization, of delivering government services; to create an economic environment which is positive and attractive to new and existing businesses.

Today we are here to share with you our business community's thoughts on your upcoming budget. We feel the government is on the right track to getting Ontario's fiscal house in order with the passing of Bill 26 and your deliberations on education and municipal restructuring.

The board of trade has adopted an overall position that any additional government spending at any level on programs must be funded from current budgets by reallocation of funds from existing programs. The board of trade has vocally opposed additional government spending through increases in taxes at any level.

In letters not only to the province of Ontario but to the Prime Minister, the Peel Board of Education, the city of Brampton and the region of Peel, we stated, "Governments at all levels must bring their financial house in order and adopt a philosophy of not spending more dollars than they bring in and that it is essential to look to tax reduction and reallocation of funds from existing programs to reduce the tax burden and/or fund new ventures."

It is interesting to note that when we speak of business in Ontario, the vast majority are small businesses. Eighty per cent of our board's membership is made up of small businesses employing 25 people or less. These business people are your neighbours who run the town pharmacy, the local convenience stores, the carpenters, the mechanics, the machine shops in the industrial malls, and the innkeepers in cottage country. Ask any one of these business people and they will give you the real perspective on the state of the Ontario economy and the barriers for growth in jobs.

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Where are we today? Quite frankly, we're in a mess. Ontarians are in a state of shock. They have finally realized what has happened to their province over the past decade. Many Ontarians have come to the harsh realization that we can't continue spending approximately 25% more than we take in, while others with special interests feel money grows on trees.

The federal government has realized there is no more money, and you have finally realized that you can't spend

your way out of the mess and are now putting plans in motion to get Ontario back on track. It is now time to educate the school boards and municipal levels of government that there is no more money. Without putting away the credit card and having a plan of action, in some cases painful action, we will be bankrupt. Simply put, if a family who owned a three-bedroom bungalow continued to spend on credit and had the debt and deficit problems Ontario has, they would by now have lost their home, been put out on the street and declared bankruptcy.

The Brampton Board of Trade maintains the position that governments municipally, regionally and provincially must be committed to downsizing government, to cost reduction as a government policy, to accountability to the taxpayers, to less government and to the elimination of government duplication. Our message today is not only from the business community; I have over 160 letters with me today from employers and employees alike who took the time to fax me a letter, starting Friday, with one simple message. I'll just read the letter:

"Dear Mr Harris and Mr Eves

"Keep your promise. As a taxpayer, with all due respect, I must advise you I cannot accept any more tax increases. Mr Harris and Mr Eves, I support you and ask that you live up to your promises, despite the pressures from the special-interest groups, and cut government inefficiencies, balance the budget and lower taxes. However, I cannot support a personal income tax reduction if it results in an increase in the deficit."

There are over 160 letters here and I will leave these when I leave today.

Simple observations:

Although the economy is showing signs of recovery, we have far too much unemployment, especially among our young people. In many instances the youth of today are not looking to the future, for they can't see any light at the end of the tunnel.

We have hit the tax wall, and any thought of higher taxes will drive our economy farther underground, increase the exodus of businesses out of Ontario, increase tax avoidance and evasion, and stop our already fragile upturn.

Ontarians are being cautious, for they have gone through a most difficult recession and have either lost their jobs or seen their neighbours and family members lose their jobs. They are not prepared to take a chance and spend money, fearing they may end up in the same or a similar situation. In a nutshell, they are unable to see their future clearly.

The Ontario government has the difficult task, and that means each and every one of the MPPs, of not only cutting expenditures and getting our finances in order, but you must also face the human side of the equation and rebuild the confidence of our citizens in the Ontario economy. You must address this fear of the future and the fear of spending. If there ever was a time for a tax break, it is now.

Businesses today are extremely mobile and they will gravitate to jurisdictions which support a competitive environment and jurisdictions with a welcome mat out for business. People move to areas where there are jobs and an opportunity to raise their families in clean, safe and

affordable communities. The attitude of today's government towards attracting business, helping business to start up and grow by cutting red tape and getting out of the way of business, is refreshing and should help business remain competitive in this global economy.

However, the Ontario government must eliminate the barriers that entrepreneurs face in creating jobs: the red tape. This will allow businesses to bring more taxpayers into the economy and more revenues to the government. Small business is the engine of the economy, and as we stated, over 80% of our members have 25 or fewer employees. By reducing payroll taxes and regulatory burdens and eliminating the red tape to business, you eliminate barriers to employment. The end result is growth and job creation, and ultimately more people working. This means more people paying taxes, resulting in more sales tax revenues to the government as well as lower expenditures on unemployment and welfare rolls.

We need businesses to want to come to Ontario and to stay and grow here. Jobs secure our futures, jobs build communities, and jobs create the tax dollars to support our health care, education and infrastructure services that make Ontario and our communities great places to live. These jobs will be created and sustained by the private sector. To borrow a line from a song, we ask the government to "Give us a place to stand and a place to grow."

It is important for you to continue to evaluate government programs to eliminate duplication and ensure that the appropriate level of government—either federal, provincial or municipal—is delivering the service. Although all possible government services must be open to private sector tenders, by redefining and restructuring the role of government we will end up with a smaller, more efficient government with less red tape.

The government has promised tax relief for all Ontarians. Ontario taxpayers have been hit with tax increases again and again over recent years. It is refreshing to see a government promising to give back money by cutting taxes. We all know that personal income taxes on medium-income families and retail taxes are dangerously out of line. Rather than providing significant revenue increases, tax increases have been met with tax avoidance, an increase in the underground economy and migration of businesses south of the border. The promised personal income tax cut is encouraging. However, we caution, it should be implemented only if it does not increase the deficit.

Ontarians also want this government to balance the budget. It is necessary and, although painful for some, it is of paramount importance for the government to get expenditures under control. The government needs to increase revenues by controlling expenditures. It is encouraging to see the government taking the approach that it cannot spend more than it takes in. To be successful, your challenge is to increase the vitality, revenue production and job creation within the private sector.

The private sector does not want handouts. What we need for Ontario today is the elimination of the barriers to doing business: better-designed and fewer regulations, less red tape and less bureaucracy, coupled with a pro-business mindset.

Business, both big and small, is the government's greatest ally in our economic recovery, but you will only understand business by being able to put yourself in the shoes of a small business person or entrepreneur, seeing the challenges they face and the opportunities they can collectively bring to this great province.

I was talking to a lady last night who's got a small business in a town outside Brampton. She told me she puts in three days a month filling out government forms, three days of unproductive time that's costing her money and, potentially, tax dollars for this province.

The special-interest groups are supporting the cuts so long as the government cuts somewhere else. This is more commonly known as the NIMBY approach, or not in my backyard. For the past two decades, business has ducked the cheap shots towards business and focused on the short-term adaptation and survival approach in dealing with regulations.

In our practical way, when confronted with government initiatives damaging to our global competitive position, we've focused on making them less damaging and rarely attempted to address the pressures of the special interests which drove the initiative in the first place. Frankly, our approach was wrong.

While the public was aware that business supported changes to Bill 40, there was limited understanding of why it was necessary to make Ontario business more competitive and why it was costing jobs.

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Business also supported the restructuring of government Bill 26. Fearmongers said it was the onslaught of poll taxes and user fees. Actually, it is about accountability, about taxes, and the cost of government to individuals and business.

As a board of trade, we have been critical about education from both the cost and accountability standpoints. We feel the boards of education should be operated more cost-effectively and that the boards' bureaucracies must design programs to fit their budgets and more fully utilize their assets and not rely on tax increases. We also supported the combining or elimination of school boards, which would allow the sharing of schools, reduce trustees, decrease the bureaucracy and save tax dollars.

In 1994, there was a survey of school boards done by the province of Ontario that showed the average cost per student being \$6,371 per student at the elementary level and \$7,477 per student at the secondary school level. When you look at the individual school boards, the costs range—and this is where the elimination of school boards would come in—from \$5,348 per student for a school board with 11,252 students to a high of \$13,419 per student for a school board of 167 students. Where's the accountability to the taxpayers in this situation?

Our board undertook a study in 1995 of the Peel school board budget and the Halton school board budget and determined there was no set method of accounting in place for all school boards. While Halton's budget gave us a clear audit trail and ease of access to information, we were unable to extract the same information from the Peel budget. In order for the province to get a handle on the cost of education, we feel it important that each board have the same accounting and budgetary packages to

enable the province to benchmark expenses and allocate grants equitably.

Each of you is involved in the political structure of this province. Like you, the local clerks or small business person or entrepreneur believe in Ontario and want to make our province a better place to live, work and raise our families. None of these objectives can be met without a healthy private sector growing jobs and making returns on investments.

The board of trade, as an organization, is apolitical. We are proponents of the free enterprise system as the only way for Ontario to regain its strong economic position and the only way to grow jobs in Ontario.

I've spent a lot of time not talking about the budget, at least not directly. I've spent some time on job creation and job growth and the fact that our tax burden in Canada is higher than any of our major partners. That's driving jobs and companies out of Canada and out of Ontario.

I have alluded to the need to reduce paperwork and eliminate red tape in government programs. When business is diverted from productive activities to file reports, it dilutes management attention to business fundamentals, weakening our competitive position.

I've spent some time discussing education and the fact taxpayers are demanding more value for their money and an excellent education for their children at an affordable price. The money must be spent in the classrooms for quality education so they and we can compete in the global marketplace.

I have discussed the need for government to restructure and implement cost-saving measures to provide the necessary services at the lowest possible cost and in the most cost-effective manner to the taxpayers.

In summary, as you, the government, come up to your first budget, we remind you that you were voted into office on one common theme: accountability to the taxpayers—all the taxpayers, not just those with special interests. Overspending is no longer acceptable. You must cut costs and change the way government does business. It is now time to stay the course and be accountable. As the letter says, keep your promise, balance the budget and lower taxes.

We need to look at this Ontario budget as an opportunity to show the global business community, the global investment community and the citizens of Ontario that the government of Ontario is truly open for business and serious about changing the cost of governing. You need to show that job creation and the growth of businesses are the keys to financial stability for the people of Ontario and its government.

I thank you and committee members for your time, and I would be most happy to answer any questions.

Mr Silipo: Thank you very much, Mr Malcolmson. Let me say to you that I think you have been talking very much about the budget, because when you talk about job creation and job growth, that's got to be central to what I think we're all wanting to do. I appreciate very much your presentation.

I want to centre in on one of the themes I saw running very much through your presentation and which I think you summarized even at the end: balance the budget and

lower taxes. You qualified throughout the presentation a couple of times, and from the letter or petition you read, that you were very much in favour of the tax cut but you wouldn't be able to support it or you had some reservations about it if it increased the deficit.

What I would like to put to you is that it seems clear to me—and I'm not sure that even the government members would argue about this—that giving the tax cut at this time will increase the debt and it will postpone the balancing of the deficit and it will add overall some \$20 billion to the debt, as we look at the figures available to us now. Whether or not you agree with that, if that were the case, is that something that would give you pause with respect to doing the tax cut at this point?

Mr Malcolmson: To answer your question simply, I think that's the challenge before this government and to every MPP, to ensure that they can somehow do this and make the tax cut.

Mr Silipo: So you'd like the tax cut but you also have some hesitations about it if it's going to increase the deficit?

Mr Malcolmson: Just what the letter said.

Mr Silipo: That's really the crux. It can't be done, because the money is borrowed money. It can't be done unless the government saw fit to cut even more dramatically than it has, and that would mean much, much more. We're not talking about another few million dollars here; we're talking billions of dollars.

The other question is on the tax cut and the link between that and many of the other things you've talked about, which for the sake of time I'm not going to get into but simply say to you that I very much support the thrust of making it easier particularly for small business. I hope our own actions in government in beginning that process around registration—what I see this government doing is moving to the next step of that, around reporting mechanisms, making that simpler for small business. I support that wholeheartedly.

But if there's going to be a tax cut, have you thought about the relative merits of that tax cut as it relates to building consumer confidence and increasing spending—which is, after all, the objective of this, in terms of helping to create jobs—of that tax cut being, rather than through the personal income tax cut, being on the sales tax? How would you and your association react to that?

Mr Malcolmson: First off, I'll answer your question about the tax cut and that it can't be done. I don't think any person in business today, from the single entrepreneur all the way up—there's no such word as "can't." They'll always find a way of doing it. I think this tax cut has to be to the middle- and lower-income people to generate the money into the economy. The more money people have in their pockets, the more they're going to spend. I'll just use an example. If I had \$10 extra in my pocket every week, and there were 100 people like that, they would maybe go into a fast-food restaurant and spend that \$10, treat themselves. If 100 people did that, that's 1,000 extra dollars. If 100 people did that on a consistent basis, that small fast-food outlet may have to and probably would have to hire more people, full time or part time, which now creates more money in the economy and more taxpayers.

The tax cut drives the revenue. It's a revolving circle. It just keeps going around and around. The more money you have, the more people spend, the more money taxpayers would give back in taxes. It's a never-ending circle. If you cut part of the circle off and tighten it up, it's not going to work.

Frankly, you have to do something to build the confidence of people in Ontario. Right now, nobody wants to spend a cent, as I said in my presentation, because they're terrified of the future. They're terrified that this is not going to happen and the economy is going to sink right back to what it was two or three years ago and people are going to be losing more and more jobs. You've got to fix it.

Mr Wayne Wettlaufer (Kitchener): Thank you, Mr Malcolmson, for a very enlightened presentation. Like you, or certainly prior to being elected, I was a small businessman. I often realized that an increase in taxes meant a reduction in demand for my product and for the products of other business people around. You're aware, I believe, that the Red-Tape Review Commission has been struck, with a design to reduce the burden of Ontario's 45,000 regulations?

Mr Malcolmson: Yes, I am.

Mr Wettlaufer: How do you feel that will impact your members?

Mr Malcolmson: The amount of red tape that they go through to do anything, if they can get an extra two hours a day, some productive time to get their businesses back on track, anything will help. I don't say cut red tape; get rid of it. There's no excuse for having to go, as a small businessman, to about 12 or 15 different locations to do something; go to one place.

You may or may not be aware that in Ontario—I was surprised to hear this—in order to do anything, if you need a licence for it, there are over 700 licences required in this province to do something, from driving a car to fishing, and you don't get them all in the same location. That's ridiculous. That's red tape of the worst kind that you don't need. Put it in one location or get rid of it entirely.

Mr Wettlaufer: I have one other question. Reaganomics is often cited by the opposition and the third parties as an example of the failure of trickle-down economic theory to increase jobs and an improved economy as a result of a reduction in taxes. Of course, in the United States, at the same time that there was this reduction of taxes, they increased their spending by billions of dollars on defence. Of course, we don't have that in Ontario. Do you feel that our program of decreased spending, decreased taxes will have an effect on the economy, considering we don't have those expenditures?

Mr Malcolmson: As long as people, at the end of the day, have more money in their pocket to spend, it will work fine.

Mr Kwinter: Mr Malcolmson, I just want to ask you a simple question: Do you consider the Brampton Board of Trade a special-interest group?

Mr Malcolmson: No, sir, I do not.

Mr Kwinter: Why not?

Mr Malcolmson: Because it represents all the businesses in the community and all the employees in those

businesses. The letters I gave you today, sir, were not from employers; they were from employees as well.

Mr Kwinter: Your statement says the common theme is "accountability to all the taxpayers, not just those with special interests." I say with respect that is the problem that we have. The government says, "If you disagree with us, you're a special interest; if you agree with us, you're not a special interest." How can you possibly say that a board of trade is not a special interest? I'm not saying that in a negative sense. I'm saying you have an interest to support the views of your members. That is a special interest. I'm not saying it in a negative way. I'm not saying that's a terrible thing. But I think one of the problems that we're having in all of these discussions is "we" and "they." You say: "I'm not a special interest. I only have the interests of my members at hand. They're businessmen. They do things." Well, they are not the total population. There are people out there who are not in business and who have as much right to government services as everyone else. I think that is the problem.

We heard it from the person who made a presentation just before you. I saw this on Bill 26. You talk about a NIMBY situation, not in my backyard, "We're not a special interest," but you are. Surely, if there is one special interest, that is the business lobby. Again, that's not negative. But you are a special interest. You want the interests of your members addressed. I think it would do a lot to this whole process if we stopped talking about "we" and "they." I'd like your comments on that.

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Mr Malcolmson: I disagree with you. We're not a special-interest group. You made the comment that there are people out there who are not in business. You're probably right, but most of them have jobs and work at a business or work for somebody, whether it's at the grocery store or whatever. The boards of trade and the chambers of commerce, Mr Kwinter, support not only the business people who are paying to be there but the employees. They're trying to look out for the best interests of each and every one of their employees.

I'll just use a prime example. You say we're a special-interest group. At times we have said—it's in this document right here, Getting Ontario Working Again; it was up for election—the business community and the people at this conference have said: "Don't raise the minimum wage. Freeze it or lower it or whatever."

Every time the minimum wage goes up 50 cents, you've got an owner in the small corner grocery store, for example, who says, "Okay, it's gone up 50 cents an hour." You work through the math on it and it ends up that it's going to cost him, because he has to give it through his entire operation, \$200 more a week.

He had a choice to make: Raise his prices and be uncompetitive against major competitors in his community, or take a look at his staff and say: "All right. That's \$200 a week. There's an individual. I can't afford them any more. They're not employed." Where do they go? They either go on unemployment or eventually on to welfare.

To say we are here representing business—no, we're here representing the people of Ontario who work at jobs. Yes, we happen to be a business association, but we're

not a special-interest group. We're looking out for everybody so people have jobs and they have a place to go and money to make to pay taxes, to make this province work.

The Chair: Thank you to the Brampton Board of Trade for their presentation this morning.

ONTARIO HOTEL AND MOTEL ASSOCIATION

The Chair: We now have the Ontario Hotel and Motel Association represented by Rod Seiling. We welcome you, Mr Seiling. We have 30 minutes.

Mr Rod Seiling: Thank you, Mr Chairman. I have with me Mary Lapaine, chair of the Ontario Hotel and Motel Association and an owner-operator from Goderich, Ontario.

Ms Mary Lapaine: Good morning.

Mr Seiling: Thank you for the opportunity to appear before you and your committee here today. My name is Rod Seiling and I'm president of the association. I also serve as executive director of the Hotel Association of Metropolitan Toronto, one of the area zones that comprise the OHMA. While our members are either in the accommodation or hospitality industries, they are really subsectors of the tourism industry.

Tourism is the world's largest and fastest-growing industry. The World Travel and Tourism Council estimates that tourism accounts for 10.1% of the world's gross domestic product and employs one worker in every nine. It also represents 10.7% of global capital investment and 10.9% of worldwide consumer spending.

It is predicted that by the year 2005, tourism is expected to more than double its current gross domestic output to \$7.9 trillion, generate 90% more jobs, almost triple its capital investment to \$41.7 trillion and attract more than double the current level of consumer spending to \$4.67 trillion.

Canada's position in this market has fallen from sixth in 1986 to 10th in 1991. We are the only country of the top 10 tourism destinations to experience a decline in arrivals.

Ontario's share of international tourism receipts has also declined, from 1.25% in 1983 to 0.97% in 1991, even though our international receipts almost doubled to \$2.88 billion during the same time period. Losing market share in a growth market is something that is very troubling to our industry and one which we hope this committee will agree to investigate. Tourism, as other countries and provinces have discovered, can be a means to the creation of new jobs and incremental sources of new tax revenues.

Ontario has simply not kept up during that time. Other destinations have been more successful in attracting this growing demand. One of the key elements in this equation is the lack of funding to market our product. We are simply not in the game when it comes to creating the awareness required to take advantage of opportunities.

Our industry recognizes the need for the government to get its fiscal house in order. We believe that in doing so, it must look at where to invest its scarce resources. Investing in the tourism industry has been proven in other jurisdictions as a means to maximize those returns.

The state of New Jersey was about to cancel its tourism marketing budget. Fortunately, the new governor,

Christine Whitman, commissioned a cost-benefit study, a study, I might add, that was done by a firm here in Toronto. On learning that for every \$1 the state invested in marketing tourism it received \$14.40 in taxes, the governor made the decision not to cut the budget for tourism marketing but to increase it to 60%. Similarly, we are aware of work under way in Hawaii which shows that state receives about \$8 of tax revenues for every \$1 invested in tourism. On the other side of the coin, the state of Colorado cut its budget and suffered a 40% decrease.

Nationally, the federal government committed \$50 million a year, starting last year, to market Canadian tourism. The funds are available on a matching basis for the respective provinces and the private sector.

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What has Ontario done? It has cut and continues to cut the budget for tourism. Those cuts now equate to 53% of the budget allotted for tourism. The funds available for marketing have now shrunk to around \$8.5 million. One could reasonably conclude that any further cuts to this funding would take the level down to such a point where Ontario simply is not able to perform in the marketplace.

One also has to ask the question as to whether these cuts have been counterproductive to Ontario's economy and have been a major contributor to our underperformance in the tourism market. Tourism is an industry that responds directly to demand, and demand is related to the ability to create awareness. Awareness, as you all will know, is a function of marketing, and with all the cut-backs, we suggest, it is not surprising that our tourism industry has been underperforming.

We urge the government not to allow any more funding to be cut from tourism. We suggest the government seriously look at increasing the resources for tourism as a means of creating new jobs and earning new tax revenues. Most importantly for the government, the majority of the jobs that will be created will be what we refer to as entry positions.

Increases in the level of demand for our product result in immediate increases in jobs and goods and services purchased. There is no time lag; the response is immediate and the vast majority of the jobs are low-skilled and the first-time job seeker.

As you see by the chart in front of you, the tourism industry contributes a fair amount to the tax base, almost \$6 billion federally, \$2.5 billion provincially and another \$500 million municipally, but the graph is symptomatic of a problem. To many in our industry, we simply are now viewed as tax collectors for the government. In fact, we're at a national conference right now, and some are looking at our income as a fraction of taxes rather than taxes being a fraction of income.

In a recent Price Waterhouse study, you might be pleased to know as well, that had been done here for the Toronto industry, only 11% of those in the industry were earning a return equal to or better than bank interest—not really an incentive to invest.

Ontario's tourism industry. Ontario represents the largest tourism industry in Canada. We are the gateway for the country. In 1992, the province had 66% of all US visitors and 53% of overseas visitors. Ontario accounts for 36% of the national tourism revenue. Tourism is the

province's fourth-largest export, behind motor vehicles and parts, industrial machinery and wood products. Tourism activities occur all across the province. While there are large companies involved, it is an industry primarily comprised of small business.

I draw your attention to the chart. Whether it be food and beverage, accommodation, 35%, 43% are in the 1 to 4; 200 or more are down to 0.4% or 1.7%. So we are basically small business personified.

Tourism is most about jobs. There are over 272,000 direct jobs in the industry's primary subsectors—and you see it by the enclosed chart again—the subsectors being accommodation; food and beverage; public transportation; auto; recreation; and retail. Also, you see there the direct expenditures in millions of dollars, with a total of \$16,887,000, so again a very large industry.

Tourism also represents 6.6% of Ontario's total employment. As I said earlier, the industry contributes significantly to the province's tax base. Because of the spinoff effects for other businesses, investment in tourism generates up to two and one half times that amount in real dollars, according to the World Travel and Tourism Council.

Each incremental dollar the industry produces generates 45 cents in tax revenues for the various levels of government. The federal government receives 23 cents, the provincial government 16 cents and local government six cents.

The tourism industry was hit very hard by the recession. To many, that recession still continues. Contrary to public opinion, the good times have not returned, although for some, things are improving while for others the struggle for survival continues daily. In the accommodation sector we are selling our product today for about the same price as we charged in the late 1980s.

You see here—I'm not going to walk through them—the bankruptcy statistics for 1994-95. But one of the things that is pointed out here, and one of the major problems for it, is lack of access to capital. It's a major problem. There's no funding available. Any investment we're seeing is primarily coming from either the US or from offshore, and people are coming in and picking up our properties for less than construction value. What that is doing as well is putting added pressure on our good operators because they can come in at less than market cost and compete on a price basis and steal market share and put added pressure on, as I said earlier.

A majority of the industry, as noted earlier, is comprised of small owner-operated businesses. For them it is not a job, but a way of life. They are at direct financial risk as the industry has been and is being forced to restructure.

We would suggest that Ontario cannot afford to ignore any more longer the economic opportunities tourism presents. With our inherent resources, there's simply too much upside to continue to ignore the potential. To accomplish this, the government needs to review its fiscal, taxation and regulatory policies as they relate to the industry. This process would examine the barriers to investment and growth and propose solutions.

The tourism industry has not been a good advocate to government over the years. It has been a reactive voice

more often than proactive. In doing so, the industry has failed for the most part to influence the development of good public policy as it relates specifically to our industry. The result has been the involvement of regulatory and taxation policies which have negatively impacted on the competitiveness and profitability of the industry. For example, in 1994 the accommodation sector paid out 50% of its revenues in taxes, levies, tariffs etc to the various levels of government. Obviously, this situation is not conducive for owners to earn a return on their investments and acts as a disincentive for any reinvestment, let alone new investment.

Property taxes all across the province are disproportionately higher than in other provinces. For example, a national chain has recently documented the differential. In eastern Canada, property taxes average \$1,087 per room; in western Canada, \$800 per room; and in Ontario, \$1,647 per room, which includes Metropolitan Toronto. This is driving capital investment into these other jurisdictions, to the detriment of our industry. This is leading to a situation where our infrastructure, both from a physical and a human resource perspective, is not competitive any longer.

I might add there is virtually no investment taking place. The companies are investing out of the country, out of province. There's nothing happening here at all.

In Metropolitan Toronto, the situation is even more dramatic, as hotels are being unfairly assessed at 100% more than other commercial properties. This inequity is threatening the economic viability of the industry and is costing the economy jobs and investment.

In the hospitality sector, under the Liquor Licence Act, licensed operators are subject to a number of unfair taxes. These include a wine or beer volume levy, a bottle levy, an environmental fee and federal and provincial sales taxes. They are also subjected to two gallonage taxes: (1) \$2.64 per hectolitre on beer; and (2) an amount equal to 12% of the purchase price of wine and spirits.

The result of this unfair taxation policy is that consumers pay more for alcoholic beverages purchased in licensed establishments than they do at the LCBO. Ontario, you should be aware, is the only province to invoke a gallonage tax. Estimates put the final selling price by the licensee at some 50% higher as a result of these taxes and levies. The price distortion is inducing the public to stay at home and drink rather than go out. The result is less jobs, less goods and services purchased and, of course, lost revenues to government. This artificially high price is also conveying an image that Ontario, to our tourists, is a high-cost destination, and this is an impediment to attracting more tourists.

Ontario's withdrawal from the regulatory field as it relates to smoking is also creating major problems. Local municipalities seem to be in a race with one another as to who can be the first to be totally smoke-free. In their haste they sometimes use incomplete data to justify their actions and in the process ignore the unlevel playing field they are creating within their own municipality, let alone the sizeable economic impacts.

I might add that no one is bothering to look at alternatives. Sweden, for one, is one of the leading countries in

the world looking at this problem and is looking, through mechanization, at air quality.

Unfortunately, customers do have options. They can go to a neighbouring jurisdiction or they can stay home. Again, these actions can and will have a dramatic impact on our abilities as a province to attract tourists and conventions. This is not just a smoking issue. We are a responsible industry; our actions aptly demonstrate this. It is an issue about fairness and a level playing field.

We urge the government to immediately conduct a comprehensive review of the tax and regulatory policies as they relate to our industry. The review should look at such issues as competitiveness and fairness as they relate to other industries and jurisdictions. The government should also move immediately as per the recommendations of its own Golden task force report to rectify the inequitable property tax situation that Metro Toronto hotels are subject to.

The imposition of the GST cost our industry, as other businesses. For example, in Toronto in 1990, the average daily room rate was \$107.08, including PST. In 1991, with the GST in place, the actual room rate in the city was \$101.57, including PST, a decline of 5.2% to the consumer. In actual fact the decline to the operator was 11.1%, as the room rate, excluding tax, was \$90.69. It is impossible, we are told, to isolate the actual impact of the GST, although no one argues about the negative impact of it on the economy.

We urge the government not to proceed with any harmonization of the two taxes that will result in an increase in the tax load to the consumer—and it is the consumer who pays the tax. It is our understanding that a harmonized tax, to be revenue-neutral, will have to be set at a rate of 15%. Our industry, as well as the provincial economy, we suggest, cannot and should not be burdened with the decreases in business such an initiative will cause.

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We congratulate the government on its actions to date in reducing and/or eliminating, where it has jurisdiction, the hidden costs to our members. I refer here to such things as the payroll health tax, WCB, CPP, UI, inapplicable employment equity and employment standards regulations, inappropriate workplace health and safety regulations and others. They are job killers.

Our members are good corporate citizens. They believe in and practise fair hiring, worker safety and protection etc. We already are, I would suggest, as the accompanying chart shows, socially responsible in our hiring practices and do not require additional burdens. What they need are regulations that are equitable, flexible, affordable and that enable our members to be competitive in the global marketplace. In that regard, we urge the government to work with us with a view to examining all the regulations that affect our industry and to eliminate and/or modify those that are outmoded.

I won't walk you through the chart. You can see on the hiring profile that we more than exceed the average across the province.

By the way the data for our industry have been stored, it is very difficult to do comparisons of the cost of some of these hidden charges. Needless to say, the increased

costs over the past 20 years would undoubtedly total over 400%.

The government does have available to it a substantial new source of non-tax revenue. We estimate, based on data from other provinces, that video lottery terminals would net Ontario well over \$500 million annually, more than likely closer to \$750 million. For example, Manitoba is earning \$220 million, Saskatchewan \$100 million and Alberta—while I've got here \$315 million, I'm told as of yesterday's meeting with the folks from Alberta that it's over \$400 million today.

The introduction of these machines would then pave the way for the elimination of the estimated 15,000 to 20,000 illegal machines all across the province. These illegal grey market machines are diverting untold millions of dollars into the underground, untaxed economy. Furthermore, they are forcing law-abiding operators to break the law by allowing the machines into their establishments or risk losing substantial amounts of business, with all the resulting negative impacts.

Some may argue Ontario should not introduce VLTs because of potential negative social problems. The hard reality is that they are already here in the province on a broad basis. Is it not preferable to bring this activity above ground and then to have the resources available to deal with the potential problems proactively?

VLTs have demonstrated, from our industry's perspective, that they have helped restore economic health and prosperity to the respective provinces' hospitality sectors. VLTs are a form of entertainment and as such attract customers. Owners benefit from the commission they earn.

This information is not supposition but fact, based on experience in other jurisdictions. We urge the government to closely examine the benefits that they convey in terms of the much-needed boost our hospitality sector desperately needs and as a source of revenue for the government.

In conclusion, other jurisdictions have recognized tourism for what it can be: an engine for economic growth and prosperity. This can and should happen here in Ontario. We have the product. What is lacking is a commitment from the government to provide the resources in terms of funding and public policy. The industry is able and willing and it is awaiting a signal that Ontario, as in those other jurisdictions, is ready to work with the industry for the betterment of all the stakeholders.

We urge you not to ignore tourism any longer. We've received lip-service in a broad sense from governments over the years. I think to the detriment of this province and to the people of the province, our industry has been sadly overlooked.

Ms Isabel Bassett (St Andrew-St Patrick): Thanks for your presentation, Mr Seiling. What I want to ask you is, on page 6 of your presentation, you talk about the discriminatory nature of property taxes between hotels in the region of Metro Toronto. Two questions for you: One, what would levelling the uneven tax field do to create jobs and promote investment here in Metro? Two, were we to make some changes, how soon would we see some beneficial effects?

Mr Seiling: The answer to the first question is yes, the hotels have been forced to cut services, delay investment.

The answer to the second question is, almost immediately, because we know that it's a detriment to the service levels that we need to offer. It also would result in an immediate increase in jobs, because in just five hotels that I met with last week, there's some \$60 million of deferred improvements waiting for some signal that—

Ms Bassett: Sixty million?

Mr Seiling: Some \$60 million in five hotels alone, and I can even take that province-wide. The Metro Toronto problem is dramatic; it's 100%. But if you look at the property tax situation across the province, the same thing is just magnified and personified here in Metro Toronto.

Mr Jim Brown (Scarborough West): I can vouch for the fact that there are illegal video lottery terminals in my riding. They're all over the place. There's an implicit deal when you play it that the bartender's going to pay you if it comes up right. The police in my riding are too busy trying to track down murderers, let alone solve the problem with VLTs. So they do exist and there are a lot of them.

The question I have is—and it's got nothing to do with VLTs, which I think are a great idea—you mentioned on one hand the number of bankruptcies in your business and on the other hand you said it related to the sources of capital. I'm wondering, here in Ontario, are we extremely limited in the sources of capital and is that a detriment to job creation?

Mr Seiling: I think Mary would like to answer, being an owner-operator of a small business. There's no question that access to capital is a huge problem. In fact, there isn't any. There is none available today.

Mr Jim Brown: You mean the chartered banks don't lend you any money?

Ms Lapaine: No. You can walk into a bank and you can say, "I'm a small business and I'm here for a loan," and maybe they don't know who you are. The second you tell them what industry you're involved in, within about five minutes you know the door is going to be closed on you. It is absolutely impossible. We have owner after owner telling us in our office there's no capital money out there. I think, as an owner-operator, that is one of the biggest frustrations. What Mrs Bassett was asking about Toronto is across the province. We have no money for capital. Even if we could get it, we can't afford it now anyway because we're all in dire straits.

Mr Jim Brown: First of all, I'd like to say it's not limited to your industry. Any small or medium-sized business gets the same treatment. Do you think this is related to the tax structure that we have, or it's just the fact that we don't have enough sources, we overregulate the financial institutions, or there's just not enough competition for putting money out?

Mr Seiling: It's a combination, but clearly it's a function of the tax structure and the regulatory system. I can tell you that there are major companies in our industry that have sold all their assets in this province. They still manage the property on a contract basis. That money is being invested out of the country. There is no ROI until they're gone. They're saying, "Why would we put our money at risk here and earn nothing when we can take it out of the country and earn a satisfactory return?"

They have shareholders to answer to, so that's where it's going. There is virtually no money.

The one chain that has money to expand, and it owns properties here in this province, is not investing here. They own the property and still it makes no sense to them to put any money in. That money is going out of the province.

Mr Jim Brown: And the jobs with it.

Mr Seiling: The jobs and everything go along with it. It's simply not here.

Mr Bruce Crozier (Essex South): Good morning. I wonder if you could inform us as to the competitive position that we're in in the province of Ontario vis-à-vis the other provinces. I'm speaking of the cost to travel, the cost of a vacation, maybe compared to the United States and even to other destinations where vacationers go from Canada, or where someone from other countries may look at Canada as either an expensive or less expensive place to travel.

Mr Seiling: First of all, we are the bargain. It used to be Europe on \$5 a day. It's now Canada/Ontario on \$5 a day, so in fact a problem we have is that we're so cheap to the international visitor they almost think there's something wrong here. On the product supply side, we are blessed. We're recognized as having world-class attractions.

Where we're starting to slip is, the infrastructure that was in place is starting to wear out, and because there's no return on the dollar, it's simply wearing out and we're going to end up losing simply because of the fact that the customer today is able to have and expects and demands a certain level. They want a \$200 room for \$100 a day and they want everything else. The customer has learned they can do that. It's the new product involvement or psychology of the customer today.

Mr Crozier: Notwithstanding some of the concerns that you've pointed out in here, we can say that Ontario is a reasonable place to travel and that then part of our problem is what you addressed at the outset, that we just don't promote ourselves and perhaps don't have the funding to promote ourselves.

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Mr Seiling: We are simply not in the ball game. We're being outspent by other provinces, by other countries. The federal government's initiative was a large help with matching dollars, so Ontario has no dollars to really play in that market. We're not even there. The province of Quebec gives the city of Montreal \$15 million just to market Montreal. BC's got \$15 million. We're sitting at about \$8.5 million for marketing. That's gone from well over the \$20-million mark at one time.

We recognize government has scarce resources, but as we say, this needs to be looked at as investment, because this is an industry of small business. The dollars aren't there. If there's not an awareness level, you're certainly not going to get people. Yet these are jobs that are available, as I said earlier: You create demand, there's a job tomorrow. There's no six-month, nine-month, year delay. On average, if a hotel rents 14 or 15 more rooms in a day, you have to hire another person immediately.

Mr Crozier: Certainly, I want to explore the VLT question, but it's much broader than need be discussed

here today, and as the opposition observer of the government, we'll be most interested to talk to you on the subject of VLTs at another time.

Mr Silipo: Thank you very much for the presentation. I for one believe very strongly that there is a lot more that we need to do, as you're suggesting, particularly in terms of marketing Ontario overseas, where because of the attractions we have and because of the potential links we have just by virtue of where the population of Ontario comes from, we have a natural tie.

What I want to focus in on and ask you to talk a little bit more about is the role of government. I know your industry was unhappy in the past and I gather was happier when, as part of the change in government, tourism was made part of the Ministry of Economic Development and Trade, attached to a major ministry. Yet I'm concerned that judging from what you said, the government, as it has been cutting budgets of various ministries, has also been cutting the budget for this ministry or this part of the ministry as it relates particularly to the marketing.

You have some interesting figures in your presentation about the American experience and what happens when governments, together with the industry, invest in marketing as opposed to when they cut those dollars away. Are you getting anywhere, do you feel, beyond the presentation you're making here today, with the minister or with the government in terms of having people understand that this is an area where it makes sense for the government to be investing? It has a return for all of us, for the industry first and obviously for all of us in terms of jobs and what that means for the benefit of everyone.

Mr Seiling: First of all, we have a dialogue with the minister and his staff. They've recently reorganized. We believe there's a great understanding there of the value of tourism. It would be too early for me to prejudge what's going on. We're concerned about the cuts and quite frankly we made these same solicitations a year ago when you were in power and the budget continued to get slashed. We're at the level now where if there are any more cuts, we simply aren't there. You can't meet any objectives if you try and meet the problems on the side.

We're encouraged by the initial move that tourism is economic development, that it's nothing else but, so we think we're in the right church, in the right pew, so to speak, and hopefully we'll be able to work with the government and find ways of partnering.

Our industry's not looking for a handout, but because of the high level of taxation and the composition of the industry—it's small business—if there isn't help there from the government in the broad sense, it just simply won't be there and the jobs won't be there, and these are jobs that will either be on government assistance—they can use the jobs as a stepping stone to something better. Traditionally we have a high turnover and what happens is that jobs in our industry are usually a stepping stone to something better. We're the entry level for the first-time job seeker or for someone changing jobs, using it to move on, so we expect, and part of the business is, the high turnover. It's not that they're not good jobs but we know they're transitory and people use them for something better.

Mr Silipo: My understanding and my question was not to try to get at the government, but simply to solicit from you what was happening there, because certainly, as you said, there were cuts even in the previous government. I think the cuts now are more severe, but the point is simply understanding this scenario, that it's worthwhile investing in.

There were a number of discussions when we were the government that led to a strategy being developed with the involvement of the industry around the future of tourism. Is that, from your perspective, on track in terms of a number of the things that were looked at under that strategy, including marketing certainly being, as I recall, a key part of that?

Mr Seiling: Yes. There's activity taking place on that front and meetings have been held with the minister. They're going to use the consultation process and we expect, in the next month to six weeks, that something will be going forward to the minister on a proposal based on the studies that have been ongoing for the past year to 18 months.

Mr Silipo: Good.

The Chair: I'd like to thank the Ontario Hotel and Motel Association for appearing today.

ONTARIO MINING ASSOCIATION

The Chair: Our next group is the Ontario Mining Association and it's represented by Mr Patrick Reid. I understand Mr Reid is a former member from Rainy River. I'd like to welcome you to the committee.

Mr Patrick Reid: It's always a pleasure to be back in the Amethyst Room. Also, I would like to tell you, especially some of you first-time people, it's a pleasure to be on this side of the table after 17 years here. I have with me my colleague Peter McBride, who is the manager of communications and energy for the Ontario Mining Association.

As we came in the building this morning, we saw a school group in front of the map of the minerals of Ontario that I'm sure you all spend time looking at as you come in and out of the building. It was quite heartening to hear the guide explaining Ontario's mineral history to the school children, where some of the minerals were located and what they were used for. We try, through the Ontario Mining Association, to educate the public about what mining and minerals is about.

We have a mining week every year. I think this is our seventh. It will be held April 29 to May 5, and we usually put on a display in Toronto at the Royal Ontario Museum. They have a very good minerals display there.

We also have a meet-the-miners night in conjunction with Ontario Mining Week. The last few years, we've had this reception for members of the Legislature and senior civil servants at the Royal Ontario Museum. This year we're happy to tell you that we're going to be holding that reception here in the Legislature on Thursday, May 2, so you'll all have an opportunity to drop in and meet the people who produce a lot of the mineral wealth for the province of Ontario. So I'm issuing you an early invitation, and I hope, Mr Chairman, you'll bring along your clerk of this committee, who is an old friend of my colleague.

The mineral industry is a wealth-creating industry. Our revenues in the province are between \$5 billion and \$7 billion, depending on the price of metals and minerals. We provide some 72,000 to 75,000 jobs directly and indirectly, with revenues of about \$1.1 billion going to the coffers of Ontario and helping to pay the salaries of some long-term members, such as Mr Bradley who I see has joined us.

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We are a leader, Canada is a world leader in high-technology mining and more than 85% of the mineral producing workforce uses advanced technology. This is something that isn't generally known. A lot of people have a view of the mining industry as sort of pick and shovel, but if we didn't have high technology, if we weren't using robotics, if we weren't using computers, we wouldn't be able to compete in the global mineral markets.

It is a commodity business and prices are set on world markets. They're not controlled by Canadian or Ontario producers, and therefore, we are price takers and we have to meet those prices and be productive or we don't stay in business.

It's also a high-risk business. To find a mine requires possibly staking thousands of claims. Doing diamond drilling on a thousand claims might produce one ore body that could be made into a mine. We estimate it costs about \$100 million to bring a small gold mine into production and can cost anywhere from \$250 million to \$500 million to bring a base metal mine into production. This is a high-risk business and it has a long time frame. Usually from the time of finding something that looks like an ore body or a mine, it takes about seven years to bring it into production.

For your consideration this morning, I want to touch briefly on three subjects: resource allowances, RRSP-type mine reclamation funds and regulatory reform.

In the last federal budget the Finance minister, Mr Martin, said that there was going to be a review of the resource allowance. Probably two of the more esoteric pieces of legislation in Canada are mining acts and mining taxation, and resource allowance is one of those, and I don't pretend to be an expert.

Basically, the resource allowance was brought into Ontario and other provinces back in the 1970s to be an offset to the federal government taxing the income from mining companies, and it was a recognition that the provinces, in our case Ontario, owned the resources and that the people of Ontario and its government should receive some kind of benefit through royalties from the mineral resources in the ground.

The mineral resource allowance was a way of offsetting the cost of federal income taxes and royalty taxes from the province to try and keep a relative level, competitive playing field for the mining industry. This is now under review, because on the original law there was a court challenge by Gulf Canada in which they found something in the law that wound up costing the federal treasury some millions of dollars in money that they had to refund to Gulf Canada. The federal government was concerned that every mining and oil and gas company

might follow this track, and hence we are having a look or having a review of this resource allowance.

The federal government recommended five options originally, or four options, and now we're up I believe to seven, and we, the OMA, have had discussions with the Ministry of Northern Development and Mines and Finance officials here in Ontario.

We believe that the resource allowance can be kept in place with legislation to close the hole, if you like, that Gulf Canada found, so that there won't be any further refunds necessary to the oil and gas or mining industry, but will keep the mining industry in Canada competitive.

Last year, when we appeared before this committee, we also talked about the possibility of the mining industry being allowed to have RRSP-type mine reclamation funds.

To open, develop, operate and close a mine in Ontario now, it is necessary to have a mine closure plan and a plan of financial assurance. The financial assurance is to ensure that funds will be available when the mine is closed or shut down so that the mine can be safely and environmentally soundly closed.

An RRSP type of fund would be a fund in which a company would put money in over the operation of the mine; interest would be paid on those funds within the fund, and when the mine closes, those funds would be withdrawn, those funds would be taxed, but the money would be used to pay for mine closure. We believe the analogy between a person's RRSP fund for retirement and the retirement of a mine are very similar, and we ask your consideration of this.

The last topic is regulatory reform, about which we spent a great deal of time talking to this committee last year. As you heard from the previous speaker, the burden of regulations and legislation in this province are quite high. Regulations cost money and they cost jobs, particularly if they are either unnecessary or overly burdensome, or if in fact they don't make any sense whatsoever.

In our submission there are figures that indicate how some of the regulatory burden has grown over the last few years. We're happy to see that the government is taking some steps in looking at regulatory reform, in harmonization between the federal and provincial governments, in some of the environmental fields particularly, and hopefully we will do away with some duplication.

All of these will lead to a better investment climate in Ontario and job creation that I think we're all looking at.

Mining is an industry which does and can continue to benefit everyone in Ontario. It should be viewed as a cooperative partner in Ontario's economic future and social development. It is an important sector of the economy this committee can support by taking steps to deal with the three specific concerns we've mentioned and by improving the investment climate in Ontario.

You can take actions which are fair and sensible to demonstrate that Ontario is a good place to invest, build, create jobs and prosper. You can take actions which encourage and foster the responsible and sustainable development of the province's mineral resources for the benefit of everyone in the province.

Ms Annamarie Castrilli (Downsview): Thank you for coming. My question deals with the regulatory reform

you alluded to in the final part of your presentation. You mention that Bill 26 deals with some of the concerns you have about "excessive" regulations, by your standard, and you indicate there are many more ways in which your industry could be assisted.

In the absence of some of the regulations that are being eliminated, what does your industry propose to do? You say there were compliance costs. I wonder if you could elaborate on the kind of voluntary compliances you might put into place.

Mr Reid: First of all, what Bill 26 or the amendments to the Mining Act did was to make the mining industry more self-regulatory. It shifted the onus from inspections and government responsibility to the industry doing it itself and being quite vulnerable if it doesn't do it. So there's been a shift there, which we accept. We accept that responsibility and we accept the fact that if we don't meet the standards that are set down, we feel the full brunt of the law.

One of our major concerns is the duplication of environmental assessments between the federal and provincial governments. We know this is being worked on, but we've got to eliminate the duplication, where we have to meet a set of standards for the federal government and a set of standards for the Ontario government, when we're all trying to arrive at basically the same reasonable set of standards.

Voluntary: We are doing voluntary things in terms of air and water, reducing emissions. There is the ARET program. It's a federal one, but most of our companies are participating in it. Ontario mining companies, by the way, are on the leading edge of environmental technology. We don't want to be polluting or being branded polluters, so we're working both with the federal Ministry of the Environment and the provincial Ministry of Environment and Energy, not only on the regulations but on voluntary things like ARET.

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I should say that Bill 26 did not reduce any standards and we're not looking for a reduction in any reasonable standard that's going to protect the environment and human health and safety. We're not after that per se. What we're looking at is one set, if you like. We've got six pages now of legislation and regulation at both the federal and provincial levels, and some of it is duplicative, some of it is contradictory, and some of it is out of date. We're looking for an approach that will make sense for everybody. We're not looking for the opportunity to get away with anything. We don't want that, because we know that the public and this government, in its collective, is not going to allow that to happen.

Ms Castrilli: The thrust of your position, though, is that there were compliance costs related to complying with government regulations and that you applaud Bill 26 because it makes you more self-regulating. My question is, aren't the costs going to be the same? If you are going to regulate yourself to do some of the same things, and if the only issue is the cost of compliance, how does that help? Your costs are not going to go down, are they?

Mr Reid: There are three ways that regulation costs. First of all, you've got the cost of compliance. You can comply in doing it the best way to arrive at the end that

everybody wishes, or you can comply in the sense that you have a lot of civil servants telling you, "Thou shalt do it this way" or "Thou shalt do it that way." Sometimes those ways do not make sense or are not the most cost-effective. Second, we have built up in Ontario over the past number of years a whole monitoring, inspection, command and control type of operation that some people think is necessary, or thought necessary, and it costs money to have all these inspectors, all these monitors, and it costs the companies money.

I don't know if it's apocryphal, but we're told you can have a mine site—and it's not restricted just to mining companies—and you can have 12 inspectors from 12 different ministries, or sometimes two inspectors from the same ministry but inspecting something different, show up at a property. Somebody has to show them around. There are reports—there are so many reports that have to be written in this country, it's ridiculous. It doesn't achieve the end of providing a safe and healthy environment, most of this stuff. Most of it's paperwork.

Ms Castrilli: I suppose time will tell what will happen when the industry regulates itself.

Mr Silipo: To follow up a little on that, the concern we heard from a number of sources around the self-regulating aspects of Bill 26 as they related to the mining industry was the concern that by moving to what we now have as the law of the province, while, as you say, the standards that have to be met haven't really changed substantially, there isn't as much of a check there, because it now is up to the industry through an independent source of some kind to say you've complied. That still leaves a lot of concerns out there from a number of groups. Time will tell whether this has been a wise move on the part of the government, but I certainly have understood your position on that, and you reiterated that today. There's probably not much point in arguing about it. It's now the law of the province, and we'll see what happens.

I want to pursue a bit more this question of the regulatory reform as it related to the question of the myriad regulations you have to meet, provincial and federal, whether in the discussions going on through the Red-Tape Review Commission or the Clearing the Path process those issues are being addressed. Are those areas of potential duplication being addressed? Do you have any sense that something can come out of those that might simplify the regulatory process the industry has to adhere to, at both the provincial and federal levels?

Mr Reid: The short answer is yes. We see a direction developing where things will be simplified, that parties will be focused in what their responsibilities are, that we'll get away from more of a direct command and control but the standards will be still met and they have to be set.

We're here to engage in a debate. I have to tell you, Mr Silipo, that I understand the politics of the omnibus bill and everything else that went on through it. In terms of what people, particularly Pollution Probe, told the other committee, they should be ashamed of what they said, because what they said was not accurate, it was not fair, it was not balanced, it was not reasonable. You

heard a lot of scaremongering about the stuff that relates to the mining industry in that.

Mr Silipo: We'll see, and I hope, for the sake of the industry and for all of those who live around the province where mining is a way of life, that you're right.

One of the other areas you talked about that I just want to clarify to see if I understood you is on the RRSP reclamation funds. You're essentially saying there that the same rules that apply to RRSPs around deferring taxes to be paid ought to be applied, because you're making the argument that it's the same type of situation: The money's being put aside to be used at some point in the future and the tax should be paid on it then. The response you've had from the federal Minister of Finance so far is to say that he's against it because he views it as a tax avoidance scheme. Is that a fair summary?

Mr Reid: That's the official federal party line. What they're more afraid of is that they will lose revenue, will take a tax hit if they allow this in that if they allow it for mining, then pulp and paper, chemicals, oil and gas will also require the same thing.

I really think it's a matter of fairness and equity. If the governments and the people want to have certain things, then yes, we'll do it and we'll comply, but you provide a reasonable tax situation for that framework to exist. We can go on all day, but we've done some numbers that show it would not be that much of a tax loss to provide this RRSP type of thing. You can put caps on it.

Mr Jim Brown: As promised in the CSR, we said we were going to reduce red tape, freeze hydro, WCB reform, and freeze mining taxes. I have a bit of experience in the mining business, and I know that mining helped build Ontario. Mining is at the root of the economic development of Ontario. Even today, the Toronto public marketplace provides a lot of funding for ventures, prospecting, mines, usually outside the province. What do we do about this? I know you guys are from the big companies, but you rely on the prospectors running around northern and central Ontario taking chip samples and doing all those kinds of things. They'll come to you with ideas, potential ore bodies, and you'll joint-venture them and so on. What's happened to our mining business? What's happened to the prospecting business in Ontario? There doesn't seem to me to be that much prospecting. The money goes to Arizona, it goes to Mexico, even Cuba. Quebec has flow-through shares. What can we do to get the business back and going again?

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Mr Reid: Mr Brown, a few years ago the mining industry in Canada, including Ontario, got together and started something called Keep Mining in Canada for the very reasons that you're talking about. We came up with a 10-point program, five that industry would do and five that government could do, to keep mining in Canada and make it prosper and provide the high-tech and high-wage jobs that we do. We've revised our program, it's now a 12-point program and we should have it here for you or we'll send it to the clerk.

A lot of money has left Ontario and Canada to go to other places. There are three reasons: First is that a lot of countries have pretty favourable geology; second, a lot of countries have changed their mining and investment laws

to attract investment and they realize, because they're not as far advanced industrially, that a good mining industry can be an underpinning of their economy; and third has been the sort of government attitude and overregulation and overtaxation of the last 15, 20 years, almost the benign neglect by governments of the mining industry and some act of aggression towards all the resource industries.

The Toronto Stock Exchange, by the way, is the largest raiser of risk capital for mining in the world; 20% of the activity on the TSE is related to the mining industry.

Mr Jim Brown: So we raise the money here and we take it to Arizona. In terms of self-regulation, the directors of all those companies are certainly aware of their personal liability when it comes to mining operations. I think the second thing is that in comparison to, say, Arizona and the environmental groups that are there, that are always on your doorstep, Canadian companies will go and invest in Arizona as opposed to Ontario. It seems to me that they're prudent people in Arizona; they're reasonable people; they're smart. They're going to make sure that their environment is protected. So is that the difference, that we're just so scared or what?

Mr Reid: What's the attraction? I must say the prospecting activity has picked up in northern Ontario. I'm not a geologist, but I am told by those who are that Ontario and Canada still have very favourable geology, as good as a lot of places in the world. I really think—and this is my own opinion—part of it's psychological. I think the mining industry has been hammered by various groups and bodies over the years. The regulatory burden does not make sense. We're overgoverned in this country; we all know that. We've got too many different levels of government with too many regulations, and the taxation is seen not to be competitive and/or as fair as it is in some other jurisdictions. So people who are making these decisions get fed up to here and say: "Tough. Let's go somewhere else."

Mr Jim Brown: What about the flow-through share—

The Chair: We're at the end of our time. I'd like to thank Mr Reid for attending and bringing the Ontario Mining Association's concerns to the committee, and thanks to Mr McBride as well.

ONTARIO SEPARATE SCHOOL TRUSTEES' ASSOCIATION

The Chair: The Ontario Separate School Trustees' Association is next presenter. Welcome, Mr Meany.

Mr Patrick Meany: Good morning, Mr Chair. Let me introduce us: Patrick Slack, executive director of our association; myself, and I am president of the association and a trustee of the Dufferin-Peel Roman Catholic Separate School Board; Patrick Daly, first vice-president of the association and chairman of the Hamilton-Wentworth Roman Catholic Separate School Board; and Earle McCabe, deputy executive director of the association.

The Ontario Separate School Trustees' Association, OSSTA, represents 53 Roman Catholic separate school boards from all regions of the province. These boards provide Catholic education programs and services to over 600,000 students.

OSSTA appreciates the opportunity to appear before the standing committee on finance and economic affairs to discuss funding issues that have an impact on the quality of educational opportunity available to all elementary and secondary pupils in Ontario.

There is an executive summary on page 2, but I would like to go straight to page 3 and take you quickly through the salient points of the brief so as to show the logical sequence.

OSSTA acknowledges that school boards will have to operate in 1996-97 with fewer resources than in previous years. The social contract provides for an annual reduction of \$425 million; \$1 billion annualized cost of a \$400-million reduction announced by the Ontario Minister of Finance in November 1995.

Fairness and justice require that these reductions apply to all boards, with all boards accepting a fair share of the burden. We believe that to provide lesser resources for the education of some Ontario students means that their future contribution to the economic, social and cultural life of this province may thereby be adversely affected.

OSSTA believes that the announced reductions in transfer payments violate the rationale for equalization grants. Education grants from the consolidated revenue fund are not the same as grants to municipalities or hospitals. Rather, they are truly equalization payments meant to bring all boards to an equity level, or at least to the ceilings. The poorest boards, that is, those with the least assessment, receive larger equalization grants, while the richer-assessment boards have less of a gap to be met by provincial grants.

The net effect of reductions of \$1 billion in provincial funding to school boards hurts the poorest boards and has little, if any, impact on the richer boards. Indeed, the reductions have no impact on those few boards in negative grant situations.

Boards that receive few, if any, equalization grants may well make cuts parallel to those made by other boards. This would result in savings to the board and lower local taxes, an achievement which would be a boon to their own ratepayers but which is unavailable to all other ratepayers in the province. For the sake of fairness, all boards should be required to share equally in funding cuts, with savings from boards which receive no equalization grants to accrue to the provincial funding model for the benefit of all.

Fairness demands that all students be treated equitably. This is possible only if all boards are treated equitably and that all boards accept their fair share of the burden. Therefore OSSTA recommends:

That any reduction of provincial grants to school boards be based on a formula which ensures a fair sharing of the burden by all school boards, with savings generated by boards in negative grant situations to accrue to the provincial funding model;

That legislation be introduced instructing municipal treasurers to remit to the province any surplus tax revenues that may occur as a result of applying the standard mill rate to local assessment, with such revenues to be used to narrow the gap between assessment-rich and assessment-poor boards.

We have four concerns regarding the 1996 general legislative grants which are scheduled to be announced next month.

First, equity as an objective. Equity and fairness have long been a key principle undergirding our system of education in Ontario. We urge that the following be added to the list of objectives in order to provide an equitable and fair system of education in Ontario.

Second, while we have equity to the ceilings through the use of equalization grants, everyone recognizes that the ceilings are too low and do not reflect the realistic costs of school boards. The proposed cut to the grant ceilings is of great concern, since any reduction to the ceilings further increases the serious inequities that already exist.

Third, sharing and cooperation for Catholic boards are guided by two important principles: (a) that the initiatives achieve real efficiencies and measurable savings for all boards; and (b) that the initiatives do not compromise the unique mission of Catholic education.

Fourth, transportation. The 53 Catholic school boards in Ontario, with 1,544 schools, serve the same geographic area as 106 public boards with 3,210 schools. These figures demonstrate why Catholic boards have proportionately larger transportation costs than public boards.

OSSTA therefore recommends that greater efforts be made to provide stability in provincial funding affecting school boards and that consideration be given to announcements of funding on a multi-year basis.

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Capital funding. Funding to maintain, repair and renovate is essential to protect Ontario's \$20-billion investment in school facilities. In recent years, the pressure of enrolment growth has meant that only limited funding, about \$34 million per year, has been available to boards to renovate and update. The facilities renewal program of \$67.5 million annually for three years was an important step to address board needs and it is essential that it proceed as announced.

OSSTA therefore recommends that the Ministry of Education and Training honour all capital allocation commitments made to boards in the capital expenditure forecast process as well as those made for the facilities renewal program of April 1995.

Payments in lieu of taxes. OSSTA supports a more equitable local sharing of payments in lieu of taxes. Few, if any, municipalities share with school boards, public or separate, the education portion of payments in lieu.

OSSTA recommends therefore that legislation be introduced to require municipalities to allocate to school boards all payments in lieu of taxes based on the education mill rate.

I would like to ask Mr Daly to carry on from there.

Mr Patrick Daly: My comments relate to the need for funding reform in the entire education funding model. New Directions, Volume Two: A Blueprint for Learning in Ontario, states: "Everyone involved in the educational system agrees that Ontario's complicated formula for funding education needs to be replaced." OSSTA endorses this assertion and urges the government to proceed with a new funding approach without delay.

Many studies have been conducted in recent years on how to improve the funding of elementary and secondary education. We go on in our brief to outline a number of those reports and commissions. A consistent theme of all these studies is a recognition that under the present system of funding education in Ontario, a school board's ability to offer its students a high quality of education is influenced by the wealth of its property tax or assessment base. In practical terms, this means that the Ontario education system offers clear advantages to some students simply because they live in assessment-rich areas.

We go on in detail to outline the basic problem in education finance. I'll highlight a couple of significant areas on page 9. We list the inequities above the approved ceiling; the way commercial and industrial revenues are determined and directed; the lack of access to commercial and industrial tax base by separate school boards and a number of assessment-poor public boards; as well as the default mechanism provision.

All studies since the Smith report in 1967 have focused on inequities arising from the disparity of commercial and industrial assessment among school boards. Most reports have recommended some form of provincial pooling of all non-residential assessment.

Our association supports the full provincial pooling of all non-residential assessment and its distribution on a per-pupil basis for a number of reasons. On page 10 and at the top of page 11 we detail at length those reasons. I'll just highlight them.

(1) The provincial pooling of all non-residential assessment is needed to stimulate economic development and thus create jobs in these difficult economic times.

(2) The present municipal boundaries create opportunities for differing tax regimes that distort normal business patterns. Only provincial pooling will bring about property tax neutrality for commercial and industrial taxpayers in the Ontario economy.

(3) It is the height of inequity to impose provincial standards of learning without providing adequate funding to allow all school boards equality of educational opportunity.

(4) For individual students and their parents, disparities of assessment wealth that generate disparities in education spending are accidents of history and geography. Access to educational opportunities should not depend on fortune, nor should social policy perpetuate such disparities.

(5) The commercial and industrial assessment wealth of urban areas is in large measure attributable to the work of people who do not reside within their jurisdictions.

(6) The vitality of the urban areas is something to which all Ontarians contribute economically. The rest of the province should not be treated as a colony or hinterland for the urban areas to exploit, especially in respect of a social good and basic entitlement such as education.

(7) The alternatives of coterminous pooling and regional pooling of non-residential assessments, such as recommended by the Golden report, are not acceptable because they would perpetuate disparities of wealth between urban and rural areas of Ontario and do not eliminate the distortion to business location decisions.

Provincial pooling of all non-residential assessment is essential. Without action in this area, the other finance proposals lose their potency.

OSSTA therefore recommends that, for the sake of fairness and accountability, the government proceed with the provincial pooling of all non-residential assessment as a component of education finance reform.

We go on, on page 11 to the top of 12, to highlight the need for fairer use of residential assessment and we give a specific example in Stormont, Dundas and Glengarry, where the separate board educates nearly 50% of the students yet receives only 36.9% of the assessment.

Under the current system, all directable assessment is automatically assigned to the local public board unless a person having the legal right to do so takes specific steps to direct assessment to the support of the local separate board. This default mechanism system works unfairly in favour of public boards and also in favour of English boards where French-language school boards exist. As a consequence, school boards receive less proportionate residential assessment than they would obtain if the rules of choice were neutral.

In this regard, OSSTA recommends that all residential property owners be required to direct their taxes to the school system they are entitled to and wish to support and that undirected taxes be pooled and distributed on a per-pupil basis.

Regarding the determination of realistic costs, New Directions, Volume Two: A Blueprint for Learning in Ontario again emphasized that there must be a determination of realistic costs in education. We support the need to identify the components of recognized expenditures and their costs and the development of a rational means of updating components as recommended by both the Macdonald commission and the select committee on education.

We therefore recommend that a determination of realistic costs be included as a part of education finance reform and that a rational means for updating cost components be developed.

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I want to return to the issues which Mr Meany raised in his comments. We believe that these critical issues must be understood in light of the enormous cut in education funding. As he indicated, school boards are all well aware of the impending cuts in funding. However, not all school boards are the same. Those that are located in rural areas generally receive more of their funding from the province than boards that are located in urban areas where assessment wealth is much greater. Some school boards, particularly the public boards in Metro Toronto and in Ottawa, receive no provincial funding at all because of their enormous assessment wealth.

When it comes time to save money in the system, this difference becomes critical. When the government wants to save money, it reduces grants to school boards, but the school board that gets no grants experiences no such reduction unless that is provided for in legislation. A school board has no legal authority to pay money to the province. That is why the Social Contract Act gave authority to the province to require the public boards in Metro Toronto and in Ottawa to remit social contract payments to the government.

We do not know what arrangement has been made between the Ministry of Education and Training and the

public boards in Toronto and Ottawa for the payment of their share of the reduction of funding for education in the province of Ontario. The point is simple and critical: You need legislation in place in order to return the savings to the provincial purse out of Ottawa and Toronto.

The second point is even more important from a political perspective: If the province does not succeed in getting the money out of Metro Toronto and Ottawa, the differences in funding across Ontario will only increase the inequities. That is because the other boards in the province will have their funding reduced by the province, but the public boards in Toronto and Ottawa will be able to carry on business as usual. They already spend far more than other boards, and the discrepancy would only increase. As one example, in 1995 the Metro Toronto public board spent \$7,566 per pupil, while the Metropolitan Separate School Board spent \$5,777 per pupil, a difference of \$1,789. The equalized assessment for Metro public is \$1,027,000 per pupil, and for Metropolitan separate it is \$543,000. The inequities are as obvious in comparing assessment-rich public boards with assessment-poor public boards. The Bruce County Board of Education spending is \$5,474 per pupil, again over \$2,000 per pupil difference than Metropolitan Toronto public.

There is a third point to be made which follows from the first two: It is that all assessment-wealthy boards will find it easier to accommodate spending reductions than low-assessment boards. It is much easier, for example, for the boards of education in Metropolitan Toronto to reduce costs. If you tried to do that, however, in the rural areas of Ontario or in Red Lake, for example, the cuts are far more difficult to deal with. How do you achieve a cut when you only have a single supervisory officer or a very small school? For small and assessment-poor boards, the cuts will go far past administration and will impact on programs and students' learning. That is why we say that the fair way to distribute the burden of funding cuts is the same way in which the province distributes the legislative grants: The wealthy boards should absorb a larger proportion of the cut. The viability and success of education in our province depends on this important point.

We were very pleased and encouraged to hear the Honourable Jim Wilson, Minister of Health, indicate yesterday that hospitals which are operating efficiently and have streamlined in recent years will not be subject to the same level of funding cuts as perhaps other hospitals. We are encouraged by the statement and strongly encourage the government to employ the same principles of fairness and justice for education.

Mr Meany: Our conclusion is briefly summarized in the last two paragraphs on page 13, which say that OSSTA, representing as we do 53 separate school boards across Ontario, extends its hand to work with the province, with school boards and with other agencies at the local level in support of steps to provide that educational excellence to all students in our province without discrimination.

That completes our presentation. There is a summary of our recommendations on page 14. We will try to answer any questions.

Mr Silipo: Thank you very much for the presentation. I have to say that I find an aspect of your presentation a little troubling, because I think that the only one you're making happy by what you're suggesting or what you're doing is really the Minister of Education and the government, because I think he's succeeded in doing one important thing, which is to start to pit school boards against school boards. I say that with all due respect and having heard you make a number of these same arguments in the past. But I worry about the amount of stress that you're placing on the question of the negative grants. My understanding is that in fact we're likely to see in Metropolitan Toronto, I guess partly, as I understand it, because of a reduction in the assessment base that is really hitting the Metro school boards hard this year, probably those boards even being in a positive grant situation, to a small extent; I don't think to a large extent, but it may be there.

I guess I worry because I think part of the assumption that's in your presentation is that those boards that are spending at the higher level are overspending, as opposed to maybe they're spending what we should all be spending on education, and therefore what we need to do is to rectify those inequities by allowing increases where there has been underspending.

Mr Meany: If I may comment on your first point, Mr Silipo, perhaps we're more pitted than we used to be, but we have always tried to point out that the system is rigged against us; it always has been, and governments and administrations have been acknowledging that.

It's just that it's been difficult to do it, and I think we've been reasonable in working with others. It's possibly exaggerating a bit to say we're pitted against each other. We do have to say that if you were to reduce the spending by those who have more to the level that we operate with, a great deal of money would be saved. If it's okay for us to operate at so many thousand dollars per student across the province and provide, I think, good education, it should be for others.

Mr Silipo: I think when we get into that kind of approach we're right from the bat saying we're prepared to sacrifice a lot in the quality. Even, for example, when you talk about the funding formula, certainly I know, from the discussions that we were involved in when I was at Education—and I don't know what's happened since in terms of how the analysis has come out—when we were looking at the relative costs, one of the things that was becoming clear to me was that probably the fairest result would not necessarily be one spending ceiling or one spending formula that would be the same across the province, because there are differences. What there was and what I presume there should be is an attempt to try to understand, if you want to do it on a per-pupil basis, what you need to be able to properly educate a young person in Toronto versus any other part of the province.

I understand all of the points that you're making about the equity. I agree, I think, with the general thrust, with that caveat that I put on at the beginning. But overall the government has taken the position that you can take this kind of money out of the school system without affecting the classroom. What I have heard consistently from

public boards, Catholic boards, teachers, everybody else is that there is no way you can take that kind of money, \$400 million or \$800 million, out of the system without affecting the classroom. I'd like to ask you to comment on that because I think that is important.

Mr Meany: We have to agree; it's impossible.

Mr Gary Carr (Oakville South): I agree the formula is the most important thing. Having said that, I think it should be done on a per-pupil basis. I don't know if we're going to get agreement among yourselves, the public and the teachers on what a per-student cost is. Recognizing that there are two classes of students, elementary and secondary—and if you can be specific as to whether it's \$5,700 or \$6,700, whatever it is—what do you need to educate children adequately in the province on a per-student basis? What would you recommend to the government?

Mr Meany: We think that needs to be established.

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Mr Carr: But you don't have any idea now. What I'm getting at is that that's the difficulty. Everybody says it needs to be established. What needs to happen is that you come forward and say, "We believe it's 67 or 57," whatever it may be, but what you're doing is throwing it on to the government. Do you believe you can even come up with a figure you can recommend to the government?

Mr Meany: We believe we're providing good education at our present level. We know that times are hard, and we would accept that.

Mr Daly: The other key point is that we're obviously very interested in working with the government on the education finance reform work group, and that group is not far from establishing the figure. It's not a matter for us to just throw out a number. Obviously, we could do that, but that wouldn't be fair. That work group will be establishing that number and that number should be the base level of education for all in the province.

Mr Carr: Do you think we will be able to get a number?

Mr Daly: Yes, absolutely.

Mr Carr: Okay. The \$400 million is coming out, as you know, but the government has said, "Tell us the tools you need to reduce the \$400 million." We've done that in the other areas, with the hospital restructuring and so on. Given that the \$400 million is coming out—you can argue that you don't want it to, but it's coming out—knowing that, what are the tools you need to be able to get that money out?

Mr Meany: We would start with principles, and our principles would be starting off with fairness and starting off with not interfering with the programs that the kids—Patrick?

Mr Daly: The important issue we raise in our brief, that the high-spending boards get cut proportionally more than the lower-spending boards, would obviously be the first and most important point. Also, we suggest a process by which the government, the school boards and the teachers' federations sit down and cooperatively come up with a means to reduce by that number. Obviously, we're all going to be impacted by the cut. We all need to be part, and willing to agree to be part, of the solution. Clearly, things will not operate the way they have, and

it's better for all of us to sit down and be part of that solution.

Mr Carr: I have a million and one questions, but if there's any time left I'll pass to my colleague.

Mrs Marland: I would like to congratulate you on this brief this morning. It's a very constructive brief, and we appreciate the obvious work that has gone into preparing it. Of course, it's always a pleasure to see Patrick Meany. He and I started our political careers together in 1974 when we were very, very young.

I notice that you were also at the resource development committee yesterday, so you're obviously having your bed and breakfast down here these days trying to help the government. We appreciate that help, and we really want you to know that.

I'm encouraged, Patrick, to hear you say, "We know that times are hard." You can't have the responsibility you have as an elected person and not know that. We know you are struggling with your budgets. What I need to know is whether you agree with the position of the government in terms of trying to protect programs in the long term by making tough decisions now that have to be made, and also, that we feel the educational opportunity for a child living in Elliot Lake or Kapuskasing must be the same as for a child living in Mississauga or Scarborough. You and I have fought together for funding for renovations to old schools in existing large boards, like St James, for example. Do you agree with us having as our goal the equity of educational opportunity in this province for every child, regardless of board and regardless of geographic location?

Mr Meany: Yes, that is our point. I would add, in acknowledgment of Mr Silipo's point, that there needs to be a weighting formula so that if there's something extra in Red Lake or something extra down here—it may not be the same number of dollars, but there can be a weighting formula. I understand that's part of our policy. As to your original question, whether I agree on saving programs in the long term, "in the long term" made me wonder. You did not mean to say there could be some damage in the near term? We wouldn't agree that programs should be interfered with, even in the short term.

Mrs Marland: The question arises from the fact that the cost of borrowing money this year is \$9 billion in Ontario. The cost of servicing our debt is \$9 billion. That is more money than this province spent on education last year on everything: elementary, secondary and post-secondary institutions, universities and colleges. If that's the situation this year, it stands to reason that if we don't stop the spending, in another five years the cost of borrowing the money to provide any programs will have doubled.

As we now know, even with the major cuts this government is reluctantly making in all areas, our accumulated debt is still going to go from \$100 billion to \$120 billion in another five years. My question to you is, do you support the concern we have about where we are now, trying to provide the programs, knowing how much money we've borrowed and how much it's costing us to service that debt?

Mr Meany: Yes indeed, and we have given a great deal of thought to all of that, and I have personally

looked at it. Let's go back to my original principles. I mentioned doing it all with justice and fairness, hurting as few people as possible, and that includes the programs. If something has to be done, it has to be done, but we find fault with doing things too quickly without more phasing, too much suddenness, too much shock to the system and, I'm afraid, to people and the programs, the students.

Mr Crozier: Good morning, gentlemen. It's interesting to note that when Ms Marland said the debt was going to go from \$100 billion to \$120 billion over the next four or five years, that happens to be the same amount as the tax cut. We've had a lot of discussion on that over the last few days, and there'll probably be more in the future. While we're talking about tax and fair tax, in Essex South, the area I come from, the separate school board and the public school board share almost equally, it's so close to 50-50 in terms of the number of students and supporters with each board. So we have a coterminous board where that's balanced, but the funding is not. The separate board certainly receives less funding, and I don't think that's fair.

There's also been a lot of discussion about how schools should be funded. You've dwelled on the inequities in property tax and assessment. Has it been discussed at all, or do you have an opinion, about whether schools should be funded by another means of taxation?

Mr Daly: If you're referring to some form of funding through income tax or some other, obviously our association was very interested in the Fair Tax Commission a couple of years ago and supported the recommendations coming out of that report in relation to provincial pooling and distribution on a per-pupil basis through income taxes. We don't see that as a reality in the current climate, so we're not recommending that. We still believe a fair funding model is achievable in the current situation and that the means to do that is to provincially pool all non-residential assessment. That could happen quickly and would alleviate the inequities that currently exist.

Mr Crozier: I have a further question or two, but my colleague also has a question.

Mr Kwinter: I'd like to pursue the idea of the constant funding per student regardless of where you are in the province. You've acknowledged that you don't object to a weighted allocation, but I'm sure you would recognize that, for example, in Metropolitan Toronto, it costs teachers more to live in Toronto than it does, say, in North Bay. I would suggest that the population mix, given the huge number of immigrants in Metro Toronto, puts a burden on teaching, which costs money. My concern is that when you start to weigh what the allocations are per pupil, you may be exactly where you are now. How do you deal with that?

Mr Meany: We have given a great deal of thought and consideration to that. By the way, having lived in the north for some years, I can tell you that a lot of things up there are more expensive. For instance, transportation is a whole different thing. But we have taken all that into consideration, and according to our calculations, the amount of difference that weighting makes is insignificant compared to the amount of inequity.

Mr Patrick Slack: If I could add just a word to that, if you take a look at all the figures, you will see that the expenditure on education relates very closely to the money that's available to spend on it. If there were more equity in the ability, there might be a more equitable distribution of the spending on each child in this province. Be very careful to see that factor. I do understand, and we acknowledge, that the differences are there, but they're not as great as they would be had there been less of that money there to do that. You have to look at the resources and how they're distributed.

The Chair: Thank you very much, gentlemen, for coming in and presenting to us today. We appreciate your participation and your brief.

That brings to a conclusion our morning session. I would like to read one thing into the record. The week of February 25, we will be travelling. On the evening of the 25th we will travel to Thunder Bay for hearings there on the 26th. We will travel to Sault Ste Marie for hearings on the 27th. We will then travel to Ottawa, through Toronto, for hearings on the 28th, and then on to London for hearings on the 29th.

We will recess for lunch.

The committee recessed from 1211 to 1332.

ONTARIO TAXPAYERS FEDERATION

The Chair: This afternoon we have the Ontario Taxpayers Federation, Mr Pagnuelo, joining us. Mr Pagnuelo, thank you very much for joining us today.

Mr Paul Pagnuelo: Good afternoon, Mr Chairman and committee members. I'm Paul Pagnuelo, executive director of the Ontario Taxpayers Federation. I wish to open my remarks today by saying this is the first time, in appearing before this committee during pre-budget consultations, that we find ourselves in the position of not having to plead with the government to deal with the deficit crisis, and to do so not by tax increases but by spending reductions.

During last year's June election campaign, all three main parties publicly stated their commitment to balance the budget. Both the Liberal and NDP parties promised to balance the budget within four years. The PC Party pledged to balance it in five.

The Liberal and PC parties promised to balance the budget through spending cuts and not by tax increases. Both promised balanced-budget legislation and lower taxes.

The Liberal red book noted that the NDP implemented more than \$4 billion in tax increases in its first three years in office. Lyn McLeod pledged that over five years they would put \$1.7 billion back in the pockets of Ontario individuals and businesses.

The PC Party pledged to give taxpayers twice the break the Liberals said they would. Mike Harris promised to reduce provincial income tax rates by 30% in three years and to abolish the employer health tax on small businesses. To offset the \$400 million lost by eliminating the payroll tax, Harris stated a progressive fair share health levy would be instituted for individuals earning more than \$50,000 a year.

In our opinion, the commitments made to voters by the Liberal and PC parties were absolutely crystal clear. The budget would be balanced within their term of office, spending would be cut and taxes would be lowered.

On June 8, 1995, the court of public opinion decided in favour of the Harris election plan by electing a majority PC government. However, since that date, those who lost the election—the opposition parties, certain media and a mixed bag of spending coalitions which consider it their right to access the provincial treasury—continue to act as if the election had never happened.

Our primary message to the government in respect to the upcoming budget is to maintain your resolve in doing the things you said you would. Despite the howls of protest from those who are not prepared to accept that their funding has been cut, and despite the rhetoric from the opposition parties, whose job after all is to oppose for their own political gain, our federation commends the Premier for acting swiftly and with determination in delivering on his promises.

But the challenge facing not only this government but all Ontarians in the next several years is a daunting one. Intense restraint is necessary in order to reverse years of fiscal folly, which have culminated in \$10-billion annual deficits, an accumulated debt of \$100 billion and a staggering tax burden. Of equal importance is getting Ontario's economy going again, and that means creating an environment where business is willing to invest once again in this province, consumer spending will move out of the slow lane, new jobs will lead to higher tax revenues and lower social spending costs, and Ontarians who have fled to the underground economy in protest of high taxes and government misspending will once again be willing to pay their fair share.

Managing change in difficult times is not a pleasant task. No government, regardless of political stripe, can do the job alone. And unlike past years, we can no longer put the problem off until some time into the future. As the old Elvis Presley song goes, "It's now or never." In order to achieve the Ontario we all strive for, each and every one of us must play an active role in charting the future of this province and rebuilding our economy.

It is within this overall context that we address our recommendations in respect to the upcoming budget.

Back on May 30, 1995, Mike Harris, leader of the Progressive Conservative Party, pledged, if elected, to support immediate passage of taxpayer protection legislation. The legislation would make any increase in existing tax rates or any new taxes subject to approval by the voters of Ontario in a binding referendum. It would require the elimination of Ontario's operating capital deficits within at least five years, along with interim deficit reduction targets for each of the years. Finally, it would contain pay-for-performance ministerial salary penalties for both the Premier and cabinet ministers if interim deficit reduction targets were not met.

While we had hoped that this legislation would by now be in place, we trust that the Premier and the Finance minister will honour the pledge which they and their fellow caucus members made by introducing the legislation as part of their budget package.

Ontario's spending, tax, debt and deficit levels have become so outrageous that a public consensus has emerged, and that is that taxpayers must act to control government. In going through the pain over the next several years of government restructuring, we must insist that the effort not be lost to future and by future governments. Once we pull ourselves out of this fiscal mess, there must be a mechanism in place to ensure that never again in the history of this province will we allow ourselves to indebt future generations.

The purpose of taxpayer protection legislation is to place limits on the behaviour of governments with respect to fiscal policy. Governments may be restricted in a number of different ways. Some taxpayer protection laws force governments to balance their budgets on a year-to-year or cyclical basis. Others require a self-imposed spending and/or tax limit. A number of jurisdictions with taxpayer protection legislation employ debt limits in order to curtail the negative effects of government overspending.

In each and every case, however, taxpayer protection legislation provides a fiscal line that the government in question may not cross. It sets out a definitive, objective and precise guideline delimiting the resources available to the state to be derived from its citizens. Its citizens likewise are provided with the confidence that the state will not act in an arbitrary or erratic manner in the appropriation of revenues and how it spends those resources. Under taxpayer protection legislation, the expectations of both parties in the raising and spending of public funds are pre-defined.

Thus, taxpayers are protected from what can widely be regarded as ill-conceived and damaging fiscal policy: excess debt financing, successive deficits, growth in spending disproportionate to growth and production, and a seemingly limitless series of tax increases or the imposition of new taxes. Legislated limits protect the citizen's right to the wealth he or she has produced while protecting the economy, the environment from which that wealth is derived.

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In May 1994, we proposed a taxpayers protection act for Ontario. Since that time, in conjunction with our parent organization, the Canadian Taxpayers Federation, and our other provincial affiliates, we have continued to improve the model.

As part of our submission, we have appended a copy of the taxpayer protection amendment which the Canadian Taxpayers Federation recently proposed for the federal government. This is the model which we would like the Ontario government to adopt.

The taxpayer protection amendment sets out constitutional, rather than statutory, fiscal limits. The effect of this provision is that the legislation would be far more difficult to override or change in the future.

Our national TPA could be taken almost word for word and applied to the province of Ontario in the form of a constitutional amendment. Section 43, found in part V of the Constitution Act, 1982, provides for the provincial Legislature plus Parliament to amend the Constitution with respect to changes that only apply to the said province. This section has been used before for

single-province amendments, including changes to language laws in New Brunswick and amendments pertaining to denominational schools in Newfoundland.

Highlights of the taxpayer protection amendment include:

The Ontario government would be forced to balance the budget by the end of fiscal 1999-2000. After that, deficits could only be run in case of war or natural disaster, and then only after a vote of two thirds of the Legislature.

Provincial government spending would be restricted to the growth rate of population plus inflation.

The government would be forced to put any proposed new tax or any increase in existing taxes which are not revenue-neutral to a binding referendum, requiring the majority of those voting to approve of the tax change before it could be passed.

Also, financial penalties would be applied to any and all members of the Legislature who vote to increase spending or taxes which would cause a violation of the amendment.

The provincial government would be prevented from offloading its expenditures on to municipal governments or school boards without an equivalent transfer of revenues.

An emergency reserves account or "rainy day fund" would be created in case of war or natural disaster; 1% of program spending would be set aside every year specifically for this purpose.

Any budget surpluses would go to either the emergency reserves account or to the debt servicing and reduction account.

The contract offer made to OPSEU by the Ontario government is one that would be the envy of many private sector workers, both unionized and non-unionized. Indexed pension benefits, current-schedule dental benefits, merit increases of up to 3% and topped-up parental leave benefits are enjoyed by relatively few private sector workers in Ontario today.

The layoff, severance and notice provisions are so generous they would have caused many private sector workers to choke on their cornflakes when reading about them in their morning paper the last several days.

Severance is usually given in lieu of notice, but what the government is offering is a lot more. OPSEU-represented employees will get both a generous notice of six months as well as severance pay, and not just regular severance but double severance pay. A 20-year employee will receive six months' notice and 40 weeks of severance. That's 66 weeks, or a year and a quarter's pay.

If that is the price of labour peace, it is a very expensive price indeed. It clearly sets public sector workers apart as a privileged sector of society. For many taxpayers who never in their lives will ever work under such generous conditions, it means holding their noses, but if it means reducing a bloated civil service and that civil service salaries and benefits will begin to moderate and fall into line with the private sector, then it's a price which taxpayers reluctantly are willing to pay.

There are those who argue that lowering taxes is mean-spirited and that they would only benefit the rich. There are others, including ourselves, who argue that lowering

tax rates would actually increase tax revenues because it would cause economic activity to boom.

It's obvious, in light of current negotiations between the government and the union, that spending cuts are going to take longer than originally anticipated to kick in. Because of this we would like to recommend that the government phase its promised 30% tax rate reduction in over six-month intervals beginning this July.

This would mean that the first-year cut of 15% would be achieved by a 7.5% reduction in July and another 7.5% in January 1997. The remaining cuts of 7.5% in each of the next two budget years would be implemented in six-month periods at the rate of 3.75%.

It's the perfect win-win situation because it allows the government to fully honour its election pledge, it'll result in faster deficit reduction and it'll be a continual booster shot in the arm for consumers and the economy.

The Golden task force has proposed that property taxes be determined using actual value assessment, a system used in BC, which reassesses market values annually. But we question why a government that is trying to cut costs would even consider bringing in a new property tax assessment system that will be significantly more expensive to administer. Using the BC costs as an indicator, the per capita cost in Ontario for assessments under actual value assessment would skyrocket by 67%, from \$9.60 to over \$16. With annual assessment reviews, the related costs won't go down, but up.

If the Harris government wants to save big dollars and at the same time bring in a new system which is easy to understand, easy to administer, fairly distributed, transparent and more closely related to the cost of services used by each property and class, the province should be adopting the unit assessment system.

The system is based on the square footage of the building and land. Different mill rates would be applied to both, with further distinctions for usage. With unit assessment, taxation policy would be tied solely to the mill rate and not the assessed value.

Identical properties would have identical assessments regardless of where in Ontario they are located. Property owners could simply call up a municipality and ask for the applicable mill rates to determine the tax competitiveness of their local town, region or school board.

With square footage and usage being the sole criteria for determining assessments, the province could save as much as \$130 million a year in administrative and equipment costs, and there would be virtually no need for appeals. The small army of provincial assessors searching for new plumbing and skylights and peering into windows to determine market value using complex formulae and subjective judgement would vanish. And by removing the disincentives of a market value assessment system, which penalizes property owners for improvements to their buildings and land, not only would the government save money, but tax revenues and the economy would improve as a result of increased activity in the construction industry.

While user fees for certain municipal services make sense, we remain concerned that there exists no provision to protect taxpayers from municipalities looking for an easy way out of dealing with reduced provincial transfer

payments. If a certain service that is now funded through general revenues is converted either partially or in full to a user-pay basis, the amount of funding from general revenues that went to pay for the service must, and I stress must, be returned to taxpayers. If municipal governments simply opt for user fees or higher municipal taxes to offset lower transfer payments, the benefits of the 30% provincial tax rate reduction will be lost and the objective of forcing municipal governments to restructure the delivery of their services will simply not be achieved.

We again urge the provincial government to enact either legislative or regulatory changes which will prohibit lower-tier governments from implementing user fees as an indirect tax grab.

We wish to remind the government of its promise to introduce legislation last fall that would have scrapped the gold-plated pension plan for Ontario MPPs. The promise and the November 27 report of the Ontario MPP Compensation Commission seem to have vanished into thin air. We question why the promised reform has not yet occurred and if the delay was intended to benefit retiring party leaders Bob Rae and Lyn McLeod.

We remain of the view that Ontario's MPP pension plan is immoral. The Premier's comments late last summer, that the government doesn't believe it has the legal or moral right to take it away from MPPs already in the plan and that it must grandfather veteran MPPs with more than the five years' minimum service requirement, fail to provide an example of making sacrifices at the top.

Fair and proper reform of the pension plan should entail a transfer of contributions by MPPs, together with dollar-for-dollar matching contributions by taxpayers and accrued interest, to an RRSP. We again urge the government to implement the necessary reforms, to do so on a retroactive basis because you missed that earlier deadline of November, and to do it without further delay.

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Finally, I want to comment on something we raised last September with the Education minister, and that's the matter of retirement gratuities in Ontario's education system. Put bluntly, they're bleeding taxpayers dry, and the provincial government must legislate an end to this diamond-studded perk. In a study which we released to the Education minister last September, we noted that of the \$978-million total liability, reserves were in place for only 8.75%, or \$85 million. Because there are no province-wide standards for calculating the liability, the potential cash payout may be severely understated.

In 1993, taxpayers forked out more than \$90 million in cash bonuses to retiring school board employees just for showing up to work. This amounts to paying employees twice—once for working and once for just getting up in the morning. Directors of education, who can earn as much as \$140,000 a year, stand to collect a \$70,000 lump sum payment the day they retire. All this is in addition to their fully indexed pensions.

With school boards cutting back on discretionary spending in areas like classroom supplies and computers, it simply does not make sense to be running up a \$1-billion IOU for a perk which amounts to a subtle form of extortion for not being sick. Individual school boards are in too weak a position to negotiate an end to the perk,

and we again urge the government to legislate its termination. Thank you.

Mr Carr: Thank you very much for your presentation. You talked about the property tax, which will probably be most pressing, as a result of the Golden report, over the next little while. You didn't comment on anything else in the Golden report in terms of the governance issues and so on. Have you had a chance to look at that and make any recommendations?

Mr Pagnuelo: I'll tell you, having been involved in this organization for the last five years in Ontario, particularly with the Ontario Taxpayers Federation, being involved with a number of municipal groups, consulting on an ongoing basis with municipal taxpayer groups across this province, there's an overwhelming consensus that we have one too many layers of municipal government. The consensus is that we don't need bigger government; we don't need superregional governments. What I am hearing consistently throughout this province from every corner is to eliminate, abolish, get rid of the upper-tier level of government all together. Regional and county governments should simply go and their responsibilities should be repatriated to local municipal councils and/or the province, whichever best fits the particular responsibility.

Mr Carr: One last question. If the growth figures aren't there and the revenue starts to drop, the government's going to have a tough decision to make, whether to go ahead with the tax cuts or cut more than they already have, because everybody has said don't string out getting rid of the deficit past five years. If doing the tax cut meant more cuts, I take it you'd be in favour of doing the cuts?

Mr Pagnuelo: There are two important things: one is delivering on the promise, but more important is also making sure that we balance the budget within the five-year period. If revenue projections were worse than anticipated and if it's slower than necessary to achieve the spending cuts, I think most taxpayers would be prepared to see the tax rate reduction spread out over a five-year period. But the bottom line is that 30% has to be delivered by the end of your mandate. That's what you promised; that's what you were elected on.

Mr Carr: Thank you very much. Good luck.

Mrs Marland: Thank you for this excellent brief. We will certainly pay attention to all the aspects of it, and I'm glad you touched on as many subject areas as you did. The one I perhaps see as being the most significant in your brief and the one that maybe you can give us some more help with is the idea of having this taxpayer protection legislation, essentially to save government from itself in the future. Sitting here finally a member of government after 11 years in the wilderness, I know for a fact that it would be much easier for us to continue the kind of laissez-faire that has been evident in terms of responsible fiscal planning of the last 10 years. It would be easier, we would be more popular, and certainly five years from now when we go to seek re-election we wouldn't be at the wrath of all these groups and individuals who think everything we're doing right now is too tough, too soon, too fast and wrong.

While I see us being in this position of risking that because of what we're doing now, what would worry me the most is not not being re-elected, because I would rather not be re-elected than serve this five years in government not being willing to support making the tough decisions just to save my seat. I would rather lose than be re-elected because I wasn't strong enough to make the right decisions and to support those decisions. What would bother me the most is for us to do all this and exactly, as you point out on page 4 of your brief, have another government come in and it would be all for naught.

How do you perceive this taxpayer protection legislation being developed and being really held accountable? Right now, we have regulations that prohibit school boards from deficit financing, yet we have school boards that have deficit budgets.

Mr Pagnuelo: The key, in terms of ensuring that it's ironclad, that it can't easily be changed—although the legislation we propose would require a majority vote by the citizens of Ontario to amend the amendment, we're still saying entrench it as a constitutional amendment. For any government to try and undo that at a future date, whether it's your government or a government of another party, there would be a terrible political price to pay.

More importantly, I speak to all of you as a parent, and as a parent of two children ages 7 and 11. I am having a difficult time facing reality that what I've left my children is a terrible legacy where they're going to end up paying that debt down, not myself and not you, and they're going to have a lot less in the way of government services as a consequence. I think that is basically unfair. It's unfair of this generation, my generation. I think we've been absolutely selfish. We wanted everything we could get out of government, but we weren't prepared to pay the price in the form of higher taxes. It's a lot easier to pass the bill along to future generations. I think we all have a moral obligation to make sure, once this mess is cleaned up, that it never ever happens again in this country, in this province.

Mr Kwinter: Thank you very much for your presentation. There's much in it that I can endorse. I do have some questions, though. One is your call for a balanced budget in the year 1999-2000. We have a situation where the Minister of Finance appeared before us, showed us a chart saying that this government, in a best-case scenario, if everything goes the way they hope it'll go, will not be balancing their budget until the year 2000-01, which in fact is going to be after their mandate. How do you deal with that?

Mr Pagnuelo: Mr Harris signed, and I have it right here, our taxpayer protection pledge back on May 30. He said, if elected I will "support immediate passage of taxpayer protection legislation that will...require the elimination of Ontario's operating and capital deficits within at least five years, along with interim deficit reduction targets for each of the years." If we go five years from when they were elected, they should have it balanced by the end of their mandate.

Mr Kwinter: Right, but I'm saying to you that the Minister of Finance appeared before us last week, presented us with this document—it's his document, not

ours—saying that the balanced budget will be in 2000-01, which will be past their mandate.

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Mr Pagnuelo: Then I say he's got a problem, because it conflicts with this.

Mr Kwinter: I agree. I'd like also to get your reaction to the idea where you state, "Would lower personal taxes cause you to spend more or do you and your loved ones already have pretty much everything you need? How about most people?"

We have figures that show that of the tax cut, 51% is going to go to the 18% of the population earning over \$75,000, and 7% of that tax cut is going to go to 42% of the population. When the deputy Finance minister appeared before us and I asked him, "Have you done any studies about how much of that money is going to come back into the economy?" He said they really didn't have that information, although as a rule of thumb, the people at the very low end of the economic scale are the ones who will have the greatest incentive to spend the money right away because they need things, and when they get that money, they're going to go out and buy things that they normally don't have.

We've heard that Ontarians have the greatest debt in their history and the lowest savings, not in our history but certainly in the last, say, 20 years. My concern is that this money is going to go back to other than those at the very low end of the scale, who everybody agrees will go out and spend it, but the money that's going to be spent is not going to give the government the kind of kick in the economy it wants, because too much of the money is going to people in the economy who have the ability to arbitrarily spend their money as opposed to needing to spend their money.

Mr Pagnuelo: What level of income do you suggest that happens at? Basically, the message I'm hearing is that certain people don't need it. At what level are you suggesting that occurs at?

Mr Kwinter: I'm suggesting that anyone who earns \$75,000 a year, if they get that money and more, will in all likelihood, given the fact that we're at the highest debt and the lowest savings, either use it to pay down debt or top up savings or take a vacation. I don't think a lot of that money is going to find itself back into the economy. I think even \$35,000 is kind of high, but under the statistics and under the breakdown, 7% of the tax cut is going to go to people with \$35,000 a year income or less. I'm suggesting that your best hope of getting that money back into the economy has to come from that group, but only 7% of the tax cut is going to be in the hands of that group.

Mr Pagnuelo: If you target the tax cuts to one specific group, particularly those in the lower-income brackets, you're really going to limit the ability to grow the economy in terms of retail trade and manufacturing, because there'd be a limited number of products those consumers would buy. As you expand the ability for more people to share in that tax relief, you're going to have a greater economic boom because there'll be more products available that people will buy.

It's also important to consider a couple of things. First, under the Harris plan, my recollection with the tax cut

was that there would be a fair share health levy that would kick in starting at \$50,000.

Mr Kwinter: That's all factored into this.

Mr Pagnuelo: I think that needs to be looked at, and it's very progressive. The higher up you get, the more progressive it becomes.

Mr Kwinter: I very much support what you're saying about user fees. The concern I have is that when you bring in this balanced-budget legislation and it only applies to Ontario, it doesn't really compel lower levels of government to adhere to that. Today, if you saw in the paper, Mel Lastman is talking about \$5 a bag for garbage, and to me, that's a tax.

Mr Pagnuelo: There is absolutely no municipality anywhere in this province that has to either increase taxes or bring in new user fees, or cut or eliminate services. What all municipal politicians are overlooking is option C, and option C is what we call the Yellow Pages test. It's something you and I do as consumers. We shop around for the best quality and the best price on the services or goods we want to buy. Municipalities don't do that. They attempt to deliver all the services directly themselves, so whether they're getting best value for money, they don't know, and there's no way they will ever know until they actually go out and put those services out to competitive tender.

If you take a look in the United States and other jurisdictions around the world where they've adopted competitive tendering as the model for the delivery of services, the actual results have been cost savings of anywhere between 20% to 40% on average and no deterioration in the quality of service—in fact, in many cases, an improvement.

What we're seeing some of these municipalities do in terms of bringing in user fees—user fees in certain instances make sense as long as they're revenue-neutral and as long as, if a certain service is provided today out of general revenues and it's moved to a user-fee basis, those revenues that were taken out of general revenues have to be returned to taxpayers. Politicians at the municipal level can't have it both ways. They can't get to keep those revenues and at the same time implement user fees.

We're saying there's got to be some protection. There's no protection today to stop the tax grab at the municipal level.

Mr Silipo: Thank you very much for the presentation. I want to take issue a little with one of the points you make, that the opposition and others continue to act as if the election had never happened. I want to pursue that, not to get into an argument with you on it but to suggest that, aside from the fact that we disagree with what the government is doing, I for one would acknowledge that the promise of the tax cut was quite clear, as I read the Common Sense Revolution, as I heard it, but there were also some other equally strong promises made.

Just to highlight two that we've been talking about during this process, one was to maintain health care spending at the current level and the other was to make cuts in education but to protect classroom spending. What we are seeing is that both of those promises are not being maintained. So in questioning the tax cut, we're not

questioning it just for the sake of saying, "That's a bad promise" or whatever, which we are saying, but because it has to be looked at in conjunction with other promises that were made. If the government is persisting in saying, "We have to do the tax cut," and doing the tax cut puts in jeopardy other important services and other important promises that were made, we think there's a legitimate point that needs to be raised, and that we as opposition need to raise, to say to people: "This is the balance. This is the tradeoff you're making."

If the government of the day thinks that tradeoff is worthwhile making, fine, they have the majority, they can pass that, and they will deal with the electorate in terms of a judgement that will be made at the next election. I just wanted to sort of put that point to you.

The other thing is a real question to you. I heard you very clearly here and at other times in terms of your reminding the government about their promise on the tax cut. As I listened to you today, I take it that it goes beyond just the fact that the promise and the commitment was made, but because you think it does help to stimulate the economy and thus get the jobs back, which is also the other basic reason the government is saying they're doing it. What would the position of your federation be if it could be shown that if the government is determined to do the tax cut, a way to generate more spending and to therefore help create that momentum and that consumer confidence and those jobs would be not by doing the tax cut on the income tax, but by looking at it, for example, as against the sales tax? Has your federation looked at that as an option?

Mr Pagnuelo: Looked at dropping the sale tax?

Mr Silipo: Yes. Looking at the numbers the government has put out in its own document, the value of the tax cut is about \$4 billion to \$5 billion. That's roughly a drop of 4% to 5% in the sales tax.

Mr Pagnuelo: We did a survey in respect to the GST when the federal government started looking at reforming the GST. We did a survey of our members. Our national organization was founded back in 1989 because of massive opposition to the GST that was going to be rammed down everybody's throats by Brian Mulroney. That's how the whole organization started, particularly out west.

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About 92% of our members who responded in a survey said they were vehemently opposed to the imposition of the GST at the time Mulroney brought it in. They were opposed not because it was a consumption tax; they were opposed mainly because of the way it was being brought in. They saw it as a massive tax grab without any attempt by government to try to control spending. They also saw it as a potential cash cow where they could very easily raise the rate.

When about a year and a half ago we asked people what their preference was—would they rather pay taxes on what they earn or would they rather pay taxes on what they consume—we were absolutely astounded. We figured, because of the opposition to the GST back in 1989-90, that the majority of our members would say they would prefer to pay taxes on what they earn versus on what they consume. But about 74% said they would

prefer in principle to pay taxes on what they consume, so there's not massive opposition—in fact, the exact opposite—to consumption taxes, but it was particularly the GST and the way it was brought in.

Which reminds me of one other thing I didn't address today, and that's the issue of harmonizing GST and PST. We're pleading with this government, don't even consider it, because it'll end up in a massive tax shift of about \$3 billion from businesses to consumers. The last thing consumers and the last thing businesses need is to take more money away from consumers, that we don't have already.

The Chair: Thank you very much for your presentation, Paul. We appreciate your coming before the committee today for the Ontario Taxpayers Federation.

JOHN KELLETT

The Chair: The next presenter is Mr John Kellett, who is a financial consultant. Welcome.

Mr John Kellett: Thank you very much. By way of introducing myself, I've just hurried up from Bay Street where my day job is managing mutual funds and pension funds for tens of thousands of our fellow citizens. I therefore feel I have a vested interest on their behalf in good public policy, and I would add that at least two of the funds I manage are 100% invested in Canada in stocks and bonds, so there is certainly that commitment.

Good afternoon, ladies and gentlemen. I would like to thank you for permitting me time on your agenda to express my viewpoint. I am here as an individual, a lobby of one, if you will, to give the committee such help and insight as I can from the important perspective of Canada's capital markets. I have not been asked to represent any industry association or my employer, and I would appreciate it if you would accept my remarks on that premise. I might add that this is my first-ever appearance at a public policy forum, so I would ask you to overlook presentational defects. I'm often told that members of the investment industry are too reticent about getting personally involved in public policy issues—most recently by a deputy minister of the federal government—so I'm here to present what I believe to be a valid viewpoint of what will be required to restore Ontario's economic wellbeing over the long term.

Over the decades, there has been a general acceptance in Western democracies that a mixed-economy model works best for most segments of their societies. What is in argument is the appropriate level of government intervention and regulation, and this is the delicate balance that you as politicians have to strike.

I acknowledge at the outset that I am a fiscal conservative, largely on the basis of practical observation after 27 years in the investment business. This is a profession that requires a pragmatic rather than ideological approach, as the stakes are too important to be distracted by external biases. Thus, I do believe there would be many more advocates of government intervention on Bay Street if that approach was seen to be successful in generating economic wellbeing and confidence. Unfortunately, it is now even difficult to use Bay Street as a scapegoat—no longer do domestic interest rates have a made-in-Canada

flavour. Partly this is due to a worldwide trend towards interdependence of nations' economies and capital markets. We no longer have the luxury of operating in an insular vacuum where policies can be pursued without considering their external impact. However, this natural and accelerating trend of globalization has been worsened for Canada and Ontario by our rapidly increasing dependence on international lenders to finance our domestic level of overconsumption.

As is well known, Canada is one of the world's most indebted external borrowers. Because of our need to attract foreign investment, we have been burdened with among the developed world's highest real interest rates, designed to retain notoriously fickle offshore capital. Foreigners are naturally much less interested than Canadians in the social policy and domestic economic realities that have led to the present impasse, and they will leave—having many alternative locations in which to invest—at the slightest cause of concern, political or economic. This reality puts both our monetary and fiscal policies in a straitjacket because, as the world's largest export-dependent economy, our currency is very sensitive to external pressures.

A large part of the problem is the significant lack of consumer and business confidence in this province and country. Our savings levels are at multidecade lows and are among the lowest in the developed world, our cost of capital is far too high relative to domestic conditions, and the cheapest form of capital, which is equity, is far too expensive relative to other competing countries. The situation wasn't created overnight, and it will not be quickly solved. Restoring confidence, domestic and international, is an important requirement and the process is already well begun.

In this regard, Canada's inflation record over the past six years has been excellent, especially compared to our trading partners, but it takes time for outsiders to recognize and reward this as a durable trend. Ontario still has a lower debt-to-GDP ratio than all but four provinces, but on a comparative basis Ontario's situation has steadily worsened since the mid-1980s. Today that ratio is 34%; 10 years ago it was less than 20%.

Unfortunately, the relative situation continues to worsen rapidly. Currently no province has a worse budgetary deficit as a percentage of GDP than Ontario—currently at 2.8%—and the province is running an absolute deficit that would horrify even the largest US state. This is due to a downloading of federal government deficits that disproportionately affected Ontario, lower inflation and its impact on government revenues, and far too rapid spending increases in Ontario in the late 1980s and early 1990s. Only by determined action now can these adverse trends be arrested. Already the average Ontarian owes nearly \$27,000 in public debt, of which \$9,500 is provincially denominated.

Unfortunately, when one becomes debt-dependent, there are far more adverse consequences than beneficial, especially over the longer term. The well-intentioned efforts to drive economic growth through government spending has had the presumably unintended consequence of transferring wealth from the poor, who borrow, to the rich, whether nations or individuals, who lend. Increasing

government spending in the absence of sustainable private sector growth drives up borrowing costs and increases real interest rates.

In the 1960s the real interest rate on Canada's long-term bonds averaged just over 3% per annum. In the 1990s, after three decades of escalating government spending, rising taxes and borrowing, the real rate has so far averaged 6.3%. It is no coincidence that Canada has currently the highest real interest rate among the G-7 nations at the same time as having the second-highest, to Italy, total government deficit and government debt-to-GDP ratios, and sadly, nothing kills jobs and job creation quicker than high real interest rates.

If ever-higher proportions of GNP in the government sector was the answer, Canada's growth rate would have picked up over the decades instead of declining, as it has, and Ontario and Canada would have had much faster growth than, say, the United States. In recent years this has clearly not been the case. It has been calculated that if Canada had the same employment-to-population ratio as the United States—in other words, if it had the same unemployment rate and the same participation rate in the labour force—there would be 530,000 more Canadians today enjoying the dignity of a job and not burdening the welfare system.

Unlike Canada as a whole, as a legacy of past provincial prosperity, Ontario's employment-to-population ratio is only marginally below the US, but for us this ratio has fallen dramatically over the past eight years. In 1988, approximately 52% of Ontario's population was in the labour force compared to 46% in the US. Today both figures are close to 47%, with the US ratio being slightly higher. In essence, there has been no recovery in Ontario's labour market despite copious government spending.

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Realistically, this comes as no surprise. If you analyse statistics published by the Organisation for Economic Co-operation and Development for 16 of the world's largest economies, there is a strong correlation between high general government total outlays as a percentage of nominal GDP and high unemployment. Thus Japan and the US have economies in which approximately one third of spending is done by governments, whereas in Italy, France and Belgium the equivalent proportion is between 52% and 55%. However, the jobless rate in the latter three countries is considerably higher than it is in Japan and the US.

Unfortunately, because of past spending excesses, an increasing proportion of Ontario's spending is now consumed simply in servicing the accumulated debt, and this problem is rapidly becoming structural and imbedded. Thus in 1995-96 approximately 15.7% of total Ontario spending will be on debt servicing, a higher ratio than for all but two provinces, those being Saskatchewan and Nova Scotia, and both those provinces are now running budget surpluses and therefore not adding to their debt burden, unlike Ontario.

Since it has been calculated that approximately 46% of Ontario debt is held by non-residents, it is evident that a very large proportion of our tax dollars is being exported to foreign investors who demand very high real interest

rates. Ontario's difficult fiscal situation is indicated by the fact that, using current criteria, debt-rating agencies could within two or three years carry New Brunswick and Manitoba debt at a higher credit quality rating than Ontario's.

Obviously, then, a determined effort must be made to eliminate the provincial budget deficit. The tax hike route adopted by the federal government and numerous provincial jurisdictions through the 1980s clearly proved counterproductive, as a heavier and heavier tax burden, allied with more and more burdensome regulation, squeezed the life out of Canadians' expectations and the economy. Even in the early 1960s, President Kennedy, not exactly a conservative ideologue, recognize that higher tax rates and burdens resulted in lower government revenues. Since then, governments on all parts of the political spectrum have recognized that integrity of government finances was crucial to economic prosperity.

Famously, it was a socialist government in New Zealand that set that country on the growth path it is now enjoying, though at the cost of several years of difficult transition. The Kiwis have now had average annual growth in industrial production of more than 5% per annum since 1992, persistently low inflation rates—in fact the central bank governor can be fired if the core inflation rate exceeds 2%—and an unemployment rate, despite massive government downsizing through the 1980s, that is presently under 7%. And they don't have the advantage of the huge adjacent economy into which to send vast net exports that we have in Canada and Ontario.

In Canada an NDP premier in Saskatchewan, Tory premiers in Alberta and Manitoba and Liberal premiers throughout the Maritimes have been making the tough spending decisions. One of the most effective has been Premier McKenna, who Richard Gwyn describes as having the most economically successful province in Canada. This is despite or, more likely, because that province has among the lowest welfare payments in Canada, but offset by generous programs to move welfare recipients into the workforce. A cornerstone of Mr McKenna's success was the early recognition in 1987 that New Brunswick's deficit was far too high and had to be eliminated. Because of his early start, Mr McKenna had the advantage of being able to do his spending cuts in a steady, incremental fashion rather than in more dramatic ways after years of excess. Even in Ontario, the NDP government in its later years recognized that something had to be done to rectify the fiscal situation, which is why it introduced the social contract and Rae days.

In the US a Democratic president, Bill Clinton, has cut the federal budget deficit by more than half in dollar terms, and more so as a proportion of the economy. Today total government deficits in the US account for 2% of nominal GDP, compared to over 7% in Canada. There are numerous examples at the state level of the benefits of fiscal prudence. New Hampshire, with a long history of aversion to taxes, is the most prosperous New England state without any natural competitive advantages.

In the late 1980s Michigan was a hard-hit "rust belt" state with a \$2-billion budget deficit—Michigan has a slightly larger population than Ontario, and yet its worst

deficit was dramatically lower than ours is today—and it had a 9.5% state unemployment. Governor Engler cut 20 boards and commissions, eliminated the department of licensing and regulation and reduced the state payroll by more than 7%. Despite cutting government jobs, Michigan today has an unemployment rate of 4.4%, the lowest in at least 25 years, and a budget surplus despite cutting taxes 21 times.

Part of his program was to reform welfare, cutting general assistance to able-bodied people with no children and improving incentives to work. As a result, nearly one third of Michigan's welfare recipients have a job, the highest proportion of any state, and the state welfare rolls have declined for 21 consecutive months. This latter trend has saved taxpayers over \$100 million annually and has now enabled the state government to announce an ambitious pilot project to provide generous social services so poor people can go to work without economic disadvantages.

As domestic and international investors see that governments are serious about restraining their role in the economy and cutting spending, their confidence rises. This has two beneficial impacts. First, they lower the cost at which they are prepared to lend money, as they see the supply of new government debt issues diminishing. As interest rates drop, other forms of investment become more attractive and they are more beneficial to the economy longer term. It is a little-known fact—as that character on *Cheers* likes to say—that over the past 30 years Canadian equity investors have received only 1% per annum extra return over the return generated by a totally risk-free 91-day treasury bill. No wonder no one is willing to take great risks in this country; it simply hasn't paid. However, the higher stock prices are, the cheaper it is for corporations to finance at low cost for the very long term. When corporations can secure lower cost financing, whether debt or equity, they can increase highly beneficial capital spending which creates jobs and enlarges capacity, which in turn restrains inflation.

I personally do not like the prospect of short-term dislocations from cutting entitlement and program spending, but the taxpayer is not a bottomless pocket and the sooner his and her confidence can be restored the sooner long-term economic recovery can begin. The good news is that we have seen many examples of the overall success of this approach. Indeed, Mr Klein in Alberta and Mr Savage in Nova Scotia can now ponder ways to reduce their fiscal austerity. Of the former, one observer recently wrote, "In less time than he, or any of the prognosticators, dared forecast Alberta has achieved the twin goals of eliminating the deficit and putting in place a realistic plan to eliminate the provincial debt as well."

As to the appropriateness of an income tax cut, I think its main benefit is psychological and would be taken by most taxpayers as directional rather than meaningful in a short-term sense. If the provincial and federal governments are able to maintain the trend to lower interest rates, the combined benefit of lower taxes and interest payments would be positive for lower- and middle-income taxpayers and borrowers. To get the maximum impact from the use of scarce government resources, I would focus all the benefits of a tax cut on lower- and

middle-income taxpayers; presumably wealthier taxpayers, as well as all others, would benefit from a more dynamic economy. Furthermore, those who would thus benefit from this tax cut would be more likely to spend their new discretionary income on Main Street rather than Bay Street, thus beginning to restore the balance between the real economy and the financial economy to the benefit of both.

I would conclude by saying that I am aware that there's no one right answer to restoring our economic health. For 27 years I have been making decisions about investments for which at any moment in time there are equally good arguments for buying and selling those securities. The judgement lies in giving the appropriate weight to the positive and negative aspects of the investment and then living with the decision. Often mistakes are made, but at the end of the day a career is maintained by being more often right. It is my judgement, based on long observation, that a tilting of the pendulum away from government intervention would now benefit the greatest number of Ontarians.

Thank you very much, ladies and gentlemen, for listening so patiently to this rather dry presentation. As I am not an economist, I do sympathize with you for having to endure two weeks of this contradictory testimony. It's no wonder they call it the dismal science.

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The Chair: Thank you very much, Mr Kellett. Your presentation was without error as far as the technique is concerned, as you apologized at the first, and I for one certainly was not bored. If we could start with questioning, perhaps we could have two minutes each, and we would start with the opposition.

Ms Castrilli: Thank you, Mr Chair. Two minutes is not nearly enough. I have a million questions. I will focus on one. There's a great deal that's said about New Zealand and its policies and the effects on its economy. Let me just read you a study conducted by the Canadian Council on Policy Alternatives, published in December 1994, January 1995, so within the last year. I'll tell you what it says.

It says that the unemployment rate in New Zealand was 4% in 1984, and now it's at over 16%. It says that over half the country's manufacturing jobs have disappeared. It says that New Zealand now leads the world in the incidence of violent crime and youth suicides. It concludes that a 25% cut in welfare rates drove poverty rates up to 40% overnight, with one in four children in New Zealand now living in poverty. It says that public hospitals are forced to compete with private ones for funding. It says that New Zealand, because of the shortfall that it has endured in taxes, has had to impose a 12.5% sales tax. And after all that, New Zealand's net public debt, which was supposed to be assisted by all these measures, has risen from \$11 billion in 1984 to \$38 billion, up 300%.

I guess I'm a little interested in your opinion, because your paper says something quite different. How do you reconcile that?

Mr Kellett: Well, it was a socialist government that did it, so perhaps it didn't do it as effectively as it could have done. I would say that you have to put that in the

context of what's happened in other economies and the escalation that's occurred in a lot of other economies. Where would New Zealand have been without the introduction of these measures? They do have, as I say, an unemployment rate under 7%, which is substantially lower than ours. They did have to move—

Ms Castrilli: With respect, the study says it's 16%.

Mr Kellett: I know, and I'm disagreeing with the study, with respect. Basically, they were in a very difficult situation of being a tiny island with no large market next door to bring them on side, as we have the benefit of. We are a large net exporter of manufactured goods, so it's a big benefit to us.

Certainly, as I've said in my piece here, there are no absolutely right answers, but there are directions, and I've given several other examples in my piece. Just look over the border at Michigan. I think they're very satisfied.

Ms Castrilli: I regret we don't have to explore those, but the fact is that their deficit tripled.

Mr Silipo: Just in that exchange, it became again eminently clear, as you pointed out yourself, sir, how much contradiction there is in even the figures, in the statistics, if we're arguing about whether New Zealand now has a 7% unemployment rate or a 16% unemployment rate. There's a big difference.

I just wanted in the short time to focus in on one aspect of your comments, and that was around the income tax cut. I was struck by your comments that you see the impact as being more psychological, initially at least—I'm assuming; again, correct me if I'm wrong—as opposed to having a real impact initially to create jobs.

I was also interested in your comments that you would suggest that the benefits of the tax cut should be focused on lower- and middle-income Ontarians. Now, we don't know what the government is going to do, but I guess, just judging from what's in the Common Sense Revolution, that would dictate that it would in fact apply it on a percentage basis right across.

There's been some discussion also about whether in fact if you looked at making the tax cut not on the income tax but on the sales tax instead, because presumably you could take that same equivalent amount of money and lower the sales tax four to five percentage points, that wouldn't in fact generate a greater level of spending, given that that would clearly put more money into the hands of middle- and lower-income Ontarians on a relative scale. Do you have any reaction to that?

Mr Kellett: I would say that the money originally belongs to the taxpayer. It then goes to the government, which then gives it back in different fashion, at its choice. My preference would be to do it through the income tax rather than the sales tax, because then the individual receiving that benefit can make the choice between spending, saving or whatever else it is that they wish to do with the money. So it's a question of how they use that benefit.

There is the other long-term, I think, positive of declining interest rates and how much it frees up in terms of spending for the individual, particularly those who borrow, which tend to be lower- and middle-income taxpayers. A lot of people are refinancing debt right now just to take advantage of that, and that, allied to an in-

come tax cut, would allow people, for the first time in many years, to see a little expansion of what they can spend. I think that would be good psychologically.

Mr Wettlaufer: Thank you, Mr Kellett, for your presentation. You heard the previous presenter saying how he wanted a commitment that we were going to proceed with our taxpayer protection legislation. I want to assert that we are committed to it, we are planning on introducing it, but that we believe the best taxpayer protection legislation is a balanced budget.

We have moved very quickly, I think, to reduce our spending towards that eventual target. Last week, in talking with a Ministry of Finance official, we heard him say that had we not moved as quickly as we had, it would have cut back on our availability of market where we could borrow money, perhaps, and that it could have meant as much as a quarter or a half point greater interest rate for the province to borrow that money. To the province, that means \$250 million to \$500 million additional borrowing costs, but that also has an effect on the average citizen. Would you care to comment on what it might do to the average citizen in terms of his mortgage costs, his soft consumer goods or his other interest, ie, a car or something like that?

Mr Kellett: Clearly, it's very beneficial, and as I indicated to Mr Silipo, it's a double impact. You're getting it through the interest rates and you're going to get it through a tax cut subsequently, which can only really be considered appropriately if there are spending cuts to allow for the tax cut. The spending cuts are absolutely mandatory to get to that position.

So I commend the government. They have moved. It is never easy to cut spending, but it is highly necessary. Just this morning, the province of Ontario announced a very, very large re-funding in global markets, and I think we'll see the benefit of much lower interest rates on that \$1.5 billion just this morning.

Mr Wettlaufer: And that impacts on the consumer.

Mr Kellett: Indeed.

The Chair: Thank you, Mr Kellett. This being your first presentation, I'd encourage you to keep it up.

INTERFAITH SOCIAL ASSISTANCE REFORM COALITION

The Chair: We'll move on now to the Interfaith Social Assistance Reform Coalition for Ontario. We welcome you to the committee.

Rev David Pfrimmer: I want to thank all the members for allowing this time to be with you and to share some of our views and ideas. My name is David Pfrimmer. I work with the Lutheran office for public policy. I'm with the Evangelical Lutheran Church in Canada. On my left is Ms Joy Kennedy, who is with the Anglican Church of Canada, and on my right Sister Doryne Kirby, who's with the Canadian Religious Conference of Ontario. There are some other members who would have been present—we are an interfaith coalition—and unfortunately couldn't be here today due to other commitments, so our apologies that they couldn't be here, including Brother Michael Maher, who I think had originally arranged the time with the clerk.

The Interfaith Social Assistance Reform Coalition is a coalition of religious communities that has sought over the years to address the continuing reality of hunger, poverty and homelessness. It was formed in 1986. ISARC has participated in numerous efforts to reform social programs both in Ontario and in Canada. It has also been active in educational efforts to raise awareness among members of religious communities about the challenges facing our communities and the ways we as neighbours can respond to our neighbours in need.

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Sister Doryne Kirby: The Interfaith Social Assistance Reform Coalition, ISARC, includes representatives from the Ontario Conference of Catholic Bishops, the United Church of Canada, the Jewish community, the Evangelical Lutheran Church in Canada, the Anglican Church of Canada, the Disciples of Christ, Citizens for Public Justice, the Buddhist community, the Canadian Religious Conference—Ontario and the Presbyterian Church in Canada, working in partnership with other concerned groups.

The moral cornerstones for public policy: In a public letter of April 1988, "God Demands Justice—Justice Demands Action," religious leaders in Ontario outlined the ethical consensus of what religious traditions believed were the moral cornerstones for public policy. They wrote:

"This vision of a just society is not of our own making. God challenges us to do justice, show mercy, and walk humbly with our Creator. This invitation compels us to develop a society built upon a solid foundation that is measured by how we treat the most vulnerable."

ISARC has maintained that the following general principles should govern our approach to public policy, including taxation. The cornerstones of public policy must be: human dignity, mutual responsibility, social justice, economic equity, fiscal fairness and ecological sustainability.

Ms Joy Kennedy: Budgets reflect our collective values: Budgets reflect our priorities, but more importantly, they are public expressions of our collective values. The fundamental purpose of the economic enterprise, of which governments play a central and important role, is to enhance the wellbeing of people, families and communities. While governments may, and should, respect the law, this does not always mean they comply with the moral responsibilities necessary to build and sustain communities.

Building a community, be it local, provincial, national or international, requires that special and particular attention be given to those who are at risk of being excluded: the poor, the young, the elderly, the unemployed or underemployed, women, newcomers to Canada and others. Our political institutions must pay particular attention to ensuring these people have a fuller place in society.

It is in difficult times that these values are put to the test. Rather than abandon principle, we must use it to guide us in our moral responsibility to each other and for each other.

ISARC therefore recommends that this committee call upon the government to make the elimination of hunger,

homelessness and poverty, as well as the furthering of social wellbeing, the priority for the budget of Ontario.

Recently, some elected leaders have expressed regret for the unintended consequences of the drastic cuts to social programs. Ignorance of the consequences does not make the consequences any less severe or devastating, nor governments less responsible. Governments need to anticipate the outcomes of their economic policies. This is true not just for the fiscal consequences, but even more so for the social consequences. Just as the government books are audited for fiscal accountability, so too governments need to be audited by measurable criteria for the exercise of their social responsibilities.

Many social and voluntary organizations play an important role in helping develop effective strategies and providing valuable research and information. Far from being special-interest groups, as they've often been named, they deserve our support in assisting in assessing and evaluating the social effectiveness of public policy.

We of ISARC recommend that this committee call for the establishment of a social forecast, concurrent with their fiscal forecasts, to be tabled in the Legislature, and a social audit, undertaken regularly, to evaluate the performance of public policies.

ISARC has advocated strongly for a reformed social assistance system that was founded on collective values and effective principles that are integrated into the actual legislation. These values and principles must be present to safeguard citizens from capricious and arbitrary actions of their governments. More recently, the drive of fiscal expediency has resulted in governments failing to honour their social obligations.

It is important to point out that Canada has participated in the development of various international agreements to establish minimum standards for a wide range of human rights. These have included both basic human rights as well as social, political, economic and cultural rights. Many of these international obligations are honoured by programs implemented through the provinces. Therefore, Ontario should ensure that the legislation acknowledges our international obligations under such instruments as the Universal Declaration of Human Rights, the Convention on the Rights of the Child and other internationally agreed to conventions and protocols. It is through fiscal agreements between various levels of government that these collective social obligations are ensured.

ISARC recommends that this committee recommend that the provincial government, in its negotiations with the federal government, ensure that there are standards, at a minimum those within the Canada assistance plan, that apply to Canada's social programs and ensure a fair share of the necessary financial resources for the people of Ontario.

Sister Kirby: Taxes—fulfilling our responsibilities to each other: There are various ways by which we exercise our responsibility for each other. Taxes are one essential way that governments ensure the wellbeing of citizens. There are a number of assumptions that are being made which ISARC questions.

First, it is not always the case that decreased taxes will stimulate economic growth, and there is an increasing body of evidence to support the opposite assertion, that

responsible increase in taxes will stimulate economic activity.

Second, even increased growth does not mean increased prosperity. The Canadian economy has experienced growth, but it has not resulted in increased job opportunities and has resulted in declining median incomes for families.

Third, whether or not Ontarians, or Canadians, are overtaxed depends on your point of reference. Neil Brooks of Osgoode Hall Law School has pointed out that when you consider the quality of education and universal access to our public health care system, Canadians pay less for those services as a total than people living in the United States. What then is the difference between a private sector tax or a public sector premium? People need and want these services and will inevitably pay for them. The real question is, who benefits, people, or special private sector group interests?

This leads ISARC to conclude that the current proposal for a 30% cut in provincial taxes will not lead to the predicted outcomes the government projects. Furthermore, the dramatic cuts necessary to make it possible have increased unemployment, heightened insecurity among the workforce, and may result in exacerbation of the deficit, due to the fallen tax revenues. Clearly the early warning signs are there in recent reports that consumer confidence is at an alarmingly low level. ISARC believes that the proposed tax cut reflects more wishful thinking than good economic policy.

From a moral point of view, the benefits of this tax cut also seem dubious. As the above chart indicates, those with higher incomes receive a disproportionate share to those with middle and low incomes. Why should those who are well off benefit at the expense of those with middle and low incomes? One third of the benefits of this tax cut will go to only 10% of households with incomes of over \$95,000. ISARC believes that as a good moral minimum, the benefits should be reversed. After all, people with incomes of less than \$30,000 spend 95% of their after-tax income mostly in the domestic economy, while those with incomes of over \$80,000 spend only 60% of after-tax income, largely on imported goods and services. This approach would at least reflect sound economics and be more socially responsible.

ISARC recommends that this committee call for a moratorium on provincial income tax cuts; that this committee call for the reinstatement of the 21.6% cut to recipients on social assistance; that failing this approach, this committee call upon the government to reverse the benefit of the tax cut, with increased amounts for low-income people and decreasing levels of benefits as income levels increase.

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Ms Kennedy: There are many who are now advocating user fees for those who are consumers of government services. ISARC is concerned that people are first and foremost citizens with civic responsibilities and rights. Canadians have created a country where government and community institutions have served to safeguard the wellbeing of all citizens. This is an enviable tradition of civic responsibility. It is well worth encouraging and cultivating.

Canadians and Ontarians understood that they are citizens first, not simply consumers of public services. While there may be some limited usefulness for user fees such as dog licences etc, the widespread reliance on user fees undermines the nature of citizenship. At their worst, user fees can be a less obvious way of shifting unfairly the tax burden to lower-income people. What is required is some informed discussion on the question, what are the core government services that citizens need and support?

ISARC recommends that increased reliance on user fees be delayed until there can be a broad public discussion of what are the core government services that should be exempted from reliance on user fees.

ISARC recommends, further, that this committee support the establishment of a provincial council mandated with the task of addressing the question of integrating social and economic policy.

ISARC recommends that this committee call for continued support for social and community organizations developing new approaches to addressing these issues.

Mr Pfrimmer: Social divisiveness and polarization: The perception among many people in our communities is that some people and corporations are not bearing their share of the burden of the fiscal challenges we face. ISARC realizes that collectively Ontario must address the serious problem of the provincial deficit, but clearly low- and middle-income people are being asked to bear a greater responsibility for a deficit they were not primarily responsible for creating. The result has been increased polarization in the community, a profound sense of insecurity among individuals and families, a loss of confidence in the political process and politicians, and anger and resentment among our neighbours and our friends.

Rather than building a collective response to our problem, ISARC regrettably believes that the government has exacerbated this divisiveness and polarization by its unwillingness to seriously consult the community and social organizations, by labelling those same groups as "special interests," by a confrontational style in addressing various sectors such as students, workers and teachers, as well as by ignoring low-income people and the real human face of suffering.

Governments are given a mandate in elections but such mandates are not blind nor unconditional mandates. ISARC believes that what is urgently required is the rebuilding of trust. Many community organizations, including religious communities, have worked and continue to contribute to their communities. There are those who suggest that the religious community, the churches in particular, should have nothing to say about government's policies or that the churches are not doing or paying enough. Such suggestions do not contribute to building trust but betray a more self-serving agenda.

There should be no doubt that leaders of local faith communities across the province are not supportive of the direction that is being put forward. It is also increasingly clear that there are ever-larger numbers of faith group members of all political inclinations who are disturbed by this government's direction.

It is true that there are a range of views within the religious community, just as there are within any

organization, but there is an emerging moral consensus that is concerned that the current direction of economic policy in this province is unfairly increasing the suffering of the poor, heightening the insecurity of workers, dashing the hopes of young people, eroding the sense of wellbeing among families and eroding the feeling of belonging in our communities, thus leading us down a dangerous road.

ISARC encourages you to call for a new set of priorities that takes seriously the financial challenges, but primarily focuses on the needs of people. ISARC encourages you, as a committee, to put forward recommendations that focus on people, that will help rebuild and renew our sense of community and a spirit of civic responsibility, and will offer a greater sense of security and hope for people. In short, ISARC encourages you to make recommendations that offer not an economics of despair, but an economics of hope.

Please, as our elected members, be assured that in our various faith traditions we pray that God will guide and direct you and give you wisdom in the decisions you need to make.

The Acting Chair (Mr Gary Carr): Thank you for the presentation. We have about three minutes each and we'll start with the New Democratic Party.

Mr Silipo: I'm certainly more than familiar with the work you have done and the positions you've taken on these important issues in the past. I want to thank you for making the comments and addressing, I think in a straightforward fashion, also the point towards the end of your presentation about the role of the faith community, because that's certainly something that's been challenged by some members of the government in past discussions.

I certainly agree very much with the position you've taken on a number of fronts and particularly on the role and the worry that exists out there among people in the faith community that there is a responsibility to speak up, that this is not a partisan issue, that this is something that should in fact concern all of us.

The point we inevitably hear from the government side, and I'd be interested to see what questions or comments they have on your presentation today, is that we basically have no choice, that we really have such a fiscal problem that we just have to cut, we have to do all of these things, we have to balance the budget. They would argue that they have to do the income tax cut to stimulate job growth, even though we are seeing even their own figures from the Ministry of Finance indicating that they're not anticipating big job growth as a result of the tax cuts, at least initially in the first couple of years, and down the line we don't know.

My question to you really is, is there the kind of understanding that you describe here in your presentation out there in a way that is spreading among people, that what this government is doing, perhaps with all good intentions, is really taking us down a path we will regret in the sense that we will maybe balance the budget, although in a longer time frame add to the debt, but what we will have left as a society is going to be a much meaner world in which the survival of the fittest will be the basic principle, it seems, that will guide us? Are

people out there, more and more people you are dealing with, seeing, understanding that is what is happening?

Mr Pfrimmer: I think it's a good point. We hear a lot about economic restructuring: The world is changing, we have no choice. If you take that logic to its ultimate conclusion, I think maybe all of you need to resign, because what we need is a CEO and a board of directors, not a political process. In some respects there's a certain fatalism about that which I think should be alarming especially to people in public office.

Secondly, I'd just say that there are dramatic changes. People I meet are aware of those. Your friends and neighbours are aware of those as well. They're aware that the economy is changing, but they're also increasingly aware that the rules we thought governed economic life and activity no longer apply in the same way. They're full of contradictions.

I think it was in a Massey lecture that John Ralston Saul said if economists were doctors, they'd all be sued for malpractice. There's a certain sense in which what's also going on right now is that we're rewriting the rules of economic life, and at that discussion we need to look at rallying our citizens around how it is that we're going to have a collective discussion about that, not a polarized discussion, not a polemical discussion or partisan discussion, but what kind of community you want to build.

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Interestingly enough, even all the futurists and prognosticators who write many books say that where the important emphasis of the society has to go in this current moment is on the social sector. That's where jobs are going to be created, that's where the new kind of wealth and wellbeing are going to be addressed, and we're not doing anything about that. We're following, and I think a lot of people are aware of that, old economic prescriptions that are as out of date as a manufacturing industrialized world is and we have to make those kinds of changes as well.

If you want to talk about a changing world, let's look at how it's changing in the broader sense and not in the narrow sense. I think people are on to that because they're not happy when they see their schools cuts, when they see their hospitals closing, when they see their neighbours and their friends and their children who aren't going to be able to get jobs. When they see those realities, they realize there's more to it than merely just economic restructuring.

Mrs Marland: Mr Pfrimmer, Sister Kirby and Ms Kennedy, we thank you very much for this presentation, particularly the depth and the thought that you've put into it. At the end, where you said that you hold us in your prayers, that is a very significant comment because these are very difficult times for this government and they are very difficult decisions that we're making.

I hear you, Mr Pfrimmer, when you said a few moments ago that we have to decide what kind of community we want to build. I think what we are saying is that we need to have money in the future in order to protect our communities. The kind of community we want to build is one where the people who live in Ontario are not totally dependent on government, where govern-

ment simply can't be all things to all people. You know, there's this amazing idea that government is someone else, somewhere else, that there's a money tree down at Queen's Park, but in fact government is simply you and I and everyone else who lives in this province.

When our colleagues talk about the 30% decrease in the income tax rate and how the rich will benefit, you never hear them saying also that in our proposal the people who will get the greatest reduction in their income tax rate—in a scale in your own brief you go up to \$3,700. Nobody ever talks about the fact that those people at that end of the scale are going to be paying over \$3,000 in a health care levy. So it is an equal sharing, and that's what we're attempting to do.

I notice very clearly that you also state that—I don't want to use the acronym, because it's difficult for people—the Interfaith Social Assistance Reform Coalition realizes that collectively Ontario must address the serious problem of the provincial deficit. I'm encouraged by that statement on your behalf.

Mr Pfrimmer: I want to say we recognize that, but do you know there's a priority? If you're talking about families and households, and governments really aren't like families and households—you have a lot more options than the average family and household has in terms of the power of taxation, spending and all those kinds of things. But I think it's important to bear in mind, when we're talking about addressing the deficit, that there's a humane way of doing it and there's an inhumane way of doing it; there's a just way of doing it and there's an unjust way of doing it. I guess what we're seeing, not just in this jurisdiction, I might add, is that governments tend to favour old economic thinking when they try to say who's responsible for the deficit.

What we're saying is that everybody's responsible. That's true, but that has to be reflected not just in theory but also in the practice on the ground. I think consistently over the last number of years, middle-income and lower-income people have borne a greater share of that responsibility. We need, I think, to be honest and say we all bear a responsibility and everybody should pay as they are able, as they have been given. The things we have, the wealth we have entrusted for our use is not ours alone. It was given to us for a purpose, and we need to bear that in mind.

I hope that the government takes it into consideration, because I quite frankly think that the current direction is a direction that's putting you on morally thin ice.

Mrs Marland: My colleague has a question, so I'm yielding the floor to him.

The Chair: Is it a short question?

Mr Douglas B. Ford (Etobicoke-Humber): Yes, I'd like to make a comment.

One of the people before you came in from the Ontario Taxpayers Federation and said, "Tax the rich." I don't know in my own mind how you continually tax the rich. This has been tried in other parts of the world; their wealth has been taken away and I didn't see a better generation come out of that situation.

Here we have 285,000 Canadians who earn over \$100,000 a year ending up paying almost one third of

their earnings in income tax. "This group represents 1.43% of all taxpayers," and then the top 11% of taxes earning 35% of all income, those earning over \$50,000 a year, pay 52% of all taxes." So if you have that situation, a very small percentage—we had another group in here the day before that said so many people don't pay any tax. We get lies and more lies, and I'm just trying to get to the bottom of it to satisfy this panel as to how—

The Chair: Do you have a question, Mr Ford?

Mr Ford:—you see the tax system. How should we tax all these people? We're getting certain innuendos that the rich don't pay any and it's inequitable, but I would like to say this: If you tax these rich people out of the country, then who are you going to get the revenue from?

Mr Pfrimmer: This is a broad and a long debate.

Mr Ford: I realize that.

Mr Pfrimmer: I don't know if we said, "Tax the rich." We said that not everybody is in fact paying their fair share.

Interjection.

Mr Pfrimmer: It's a different kind of assumption behind that. I think there are a number of alternatives. For example, in this province and this country we've flattened the number of categories, reduced the progressivity of the tax system. We've relied on consumer taxes, consumption taxes, which are regressive taxes. We're also caught in a global situation where there is a race to the bottom. You can never get taxes low enough, because some jurisdiction's going to yank the rug out from under you as soon as you get to that level. We need to be able to reassert some tax sovereignty here that says there's a way of garnering some of these resources for social purposes.

We have to think in a lot of new ways about the tax system. For example, those people who benefit from the use of the international commons beyond any national jurisdiction pay nothing for that privilege now, and yet it has dramatic and adverse consequences on our environment and our societies. There should be some way in which we are able to collect money from those resources.

The other thing is, we need to begin to look at how to frustrate what we would call speculation, or speculative capitalism, which creates nothing but just takes, and the tax system doesn't look at ways of penalizing that and rewarding those who create genuine wealth that improves the life of our communities. So we have a really perverse tax system.

It's not quite as simple as saying, "Tax the rich." We need to have all jurisdictional levels of government as well as the community say: "People have a responsibility to contribute, and they have a responsibility to contribute based on what they've been given. Let's look at how we put that together in a way that generates resources."

Mr Crozier: There are still one or two of us to go. The comment was made that we on this side never mention the Fair Share health care levy. The reason we don't is because in their own Common Sense Revolution it says, it's important to note, that the tax savings in the chart on the previous page include the health care tax levy. So they're really getting back more in tax than what it says, but they are having to pay some on the other side.

I just wanted Ms Marland to know that we don't mention it because their own document says it's included.

You mention that you would like the 21% cut in social assistance replaced, and I think you very realistically realize it won't be and therefore have gone into the tax area. The tax cut was made across the board. Half of those on social assistance are children. Some of those who received the 21.6% tax cut need that money; others don't. Could you comment on the fact that it's just an across-the-board reduction as opposed to one that's targeted towards those who need it less?

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Mr Pfrimmer: Number one, I want to be clear that we're not in favour of the tax cut. Quite frankly, the real threat is not necessarily taxes; it's a question the security that people have about their own jobs.

It may be, as some have suggested, that if you cut taxes, it'll restore consumer confidence or whatever people spend, but I think that's a very dubious economic proposition at this point, especially in the current climate that we all feel out there. But we're not in favour of targeting programs generally. If there has to be a tax cut, though, we have to recognize that there's been an increased tax, in a sense, on social assistance recipients by 21.6%.

The point should be that as much money as possible should be restored to those people at the bottom who need it the most. I think what mechanism that would be if the government's going to proceed with the tax cut needs to be considered a little more seriously.

I'm not sure if I've addressed exactly what you wanted. We want to see those funds returned to the people who need it most.

Mr Crozier: Frankly, I was talking about the 21% cut to social assistance and how that was across the board, but I don't want to take up any more time. The remarks you gave, though, are appropriate to the tax—

The Chair: Okay. The Chair appreciates that. Ms Castrilli.

Ms Castrilli: I am very impressed with your paper, particularly with the principles of public policy that you set out that ought to be taken into account by governments of whatever stripe in trying to fashion legislation and budgets.

You may have been in the room earlier when I asked a question of the previous gentleman with respect to New Zealand and its rather disastrous attempts to do much of what the current government seeks to apply here in this jurisdiction. I pointed out to him that despite all of the measures, New Zealand has managed to triple its deficit.

Although what we're dealing with are some measures presumably to get the debt and deficit spending under control, would it surprise you to know that their own figures indicate that our own deficit will rise some 25%—we're now at \$97.2 billion, or at least we were when the government took over—and that by the year 2001 we will be at \$120 billion in debt?

Mr Pfrimmer: We're not surprised at all. In fact, I was intrigued by your comments about New Zealand because we have talked with our church and ecumenical partners, not so much the multifait community but church partners in that part of the world, and they paint

a very different picture about New Zealand. Far from being a success story, there have been tremendously adverse consequences on that community.

It's not a question of whether New Zealand ran into the so-called infamous debt wall but whether in fact there weren't suggestions—this is what we were hearing from them—that there were runs on their currency and those kinds of things. When you have a trillion dollars a day sloshing around in international currency speculation, \$80 billion of which is lost—if somebody's a good hacker on a computer, they may be able to find that money; it might be a big help—it's no wonder that there was actually an assault in New Zealand by currency transactions that has created some very damaging consequences.

The interesting thing that we also heard about New Zealand, that's often forgotten, is that it was in a transitional period of government and that the political leadership and commitment to stand up to those international economic forces was not present. There was an abdication of political responsibility and political leadership, moral leadership, so many of those programs were whisked out by people who were advising transitional folks and who basically were trained in the United States in the customary economic theology of the time.

The Chair: Thank you very much for your presentation today, and thank you to the Interfaith Social Assistance Reform Coalition for bringing a very important message to the committee. Thank you very much.

ONTARIO COUNCIL OF AGENCIES SERVING IMMIGRANTS

The Chair: The next group is the Ontario Council of Agencies Serving Immigrants. We welcome you to the standing committee on finance and economic affairs.

Mr Mulugeta Abai: Good afternoon, honourable Chair and honourable committee members. My name is Mulugeta Abai. I am a member of the board of directors of the Ontario Council of Agencies Serving Immigrants. To my right is Maisie Lo, a volunteer and chair of the policy committee. To my left is Sharmini Peries, executive director of OCASI.

The Ontario Council of Agencies Serving Immigrants welcomes this opportunity to provide our comments to the standing committee on finance and economic affairs. Your committee has the difficult task of providing advice to the Minister of Finance on taxation, expenditures and budgetary policy. Many of these areas are beyond the mandate of OCASI. However, in our presentation today we will limit our comments to the following issues: the role played by community-based immigrant services; the important contributions of the immigrants and refugees to the economy; and the provincial government's role in facilitating the effective participation of immigrants and refugees in Ontario's economy.

We would like to begin our presentation by providing some background on the work of OCASI agencies. OCASI is an association of 140 community-based agencies across Ontario. OCASI agencies provide essential programs to assist immigrants and refugees in the settlement and integration process. This includes English-language and citizenship classes, career counselling, job

training, family counselling and individual counselling, interpretation, information and referral, legal assistance and health services. A particular achievement by OCASI agencies is the development of programs for unemployed workers and social assistance recipients which integrate language and skills training, employment preparation, personal skills and job placement.

OCASI agencies are cost-effective, innovative and responsive to changing needs. They have developed skills in a wide range of program areas and involved tremendous voluntary commitment. Last year, one million volunteer-hours were worked at our member agencies.

The work of OCASI and our membership is fundamentally about breaking down the barriers which often prevent immigrants from reaching their full potential as participants and contributors to Ontario's prosperity and vitality. Our goal is a harmonious and thriving Ontario.

Immigrants—that is, those Canadian citizens and residents born outside of the country—constitute a large and enduring segment of the country's population. According to the 1991 census, immigrants represent 16% of Canada's population and 23.5% of Ontario's population. Immigrants are vital to our economy, and all categories of newcomers to Canada contribute to the economic growth, development and wellbeing of Canada. In an increasingly global economy, it's important to utilize the international knowledge, familiarity and expertise of Canadians who originate from the very countries with which Canada must trade and compete. Immigrants bring very great potential to Canada, but often this potential is blocked by barriers of racism, language, lack of training and lack of recognition of professional credentials earned abroad.

Yet immigrants do contribute. Statistics Canada data shows that immigrants to Canada begin to have more employment earnings than native-born Canadians within five to 10 years of arriving in Canada. Research indicates that immigrant households in Canada contribute to raising the standard of living of non-immigrant households by paying more taxes than the value of public services which they use. It's important to note that immigrants use fewer welfare services than native-born Canadians. Immigrants also play an important role in ensuring Ontario's economic and demographic future.

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The provincial government has made it clear that Ontario is open for business. To move forward with productivity and prosperity, we must use the language and business skills of all Ontarians. Immigrants bring to Ontario linkages with other countries, knowledge of new markets, new ideas about production and innovative ways of doing things. We urge the provincial government to ensure that in developing policies and strategies to improve Ontario's economic position, the needs and interests of immigrants and refugees are clearly considered.

OCASI recommends that the government of Ontario develop policies and strategies to improve Ontario's economic position by realizing the full economic potential of immigrants.

Ms Maisie Lo: I would like to briefly summarize the key issues and recommendations which are contained in our submission to the standing committee.

Community-based agencies such as the OCASI member agencies are a cost-effective method of delivering services. Our agencies have deep community roots and rely on the work of thousands of volunteers. Our work focuses on increased self-reliance for individuals, families and communities.

The support of the Ministry of Citizenship, Culture and Recreation through the Ontario settlement and integration program is essential for the continued ability of the immigrant services sector to meet the needs of Ontario's diverse community.

OCASI recommends that current funding levels for the Ontario settlement and integration program be maintained.

Premier Harris has stated his commitment to the development of a federal-provincial immigration agreement which includes a new funding arrangement proportionate to the numbers of immigrants received. The federal government has indicated that it wants to devolve responsibility for immigrant settlement to the provinces or to local partners. Premier Harris has stated, "The provision of government-funded settlement services, language classes and skills training is essential for newcomers' full participation in the life of Ontario."

OCASI supports the provincial government's efforts to secure a fair agreement respecting immigrant settlement with the federal government. Ontario receives the majority of immigrants to Canada and is a major destination for secondary migration. Yet in 1993-94, federal support for settlement services for a new immigrant in Ontario was \$760, whereas it was \$1,510 in the rest of Canada. OCASI has offered its assistance to the provincial government in the negotiation process.

OCASI recommends that the provincial government continue in its efforts to secure a fair and equitable agreement with the federal government with respect to immigration and immigrant settlement.

Learning one of Canada's official languages, particularly English in the province of Ontario, is a fundamental aspect of social and economic integration. Yet English-language classes for adults are disappearing right across Ontario. A recent study by York University illustrates that throughout 1993 and 1994 educational institutions in Ontario made substantial cuts to all aspects of ESL programming and delivery. Teaching Ontarians to read, write, speak and listen in the English language must be considered an educational priority. Without access to official-language training, immigrants and refugees cannot participate in the economic growth of Ontario society.

OCASI recommends that the provincial government identify English-language acquisition as an educational priority and ensure that programs continue to exist in communities throughout Ontario.

Premier Harris has stated his commitment to delivering action on access to trades and professions for Ontarians trained abroad. Premier Harris has stated a commitment to work to incorporate access principles into the policies of licensing and certification bodies.

OCASI supports the recent provincial announcement of the creation of a credential assessment service by the Ministry of Education and Training. This is an important first step in establish equity of access to professions and

trades. OCASI supports the development of additional measures, including demonstration projects and joint initiatives with community organizations and regulatory bodies.

OCASI recommends that the provincial government develop a range of measures as part of its equal opportunity plan to ensure equitable access to professions and trades for individuals who have acquired their education and training outside of Canada.

OCASI acknowledges the provincial government's decisions regarding employment equity. The task ahead is the development of new strategies to ensure equal access. We believe that one strategy is the revitalization of the Ontario Human Rights Commission.

OCASI recommends that the Ministry of Citizenship, Culture and Recreation take immediate steps to improve the effectiveness of the Ontario Human Rights Commission and to ensure that the commission has a strong focus on systemic discrimination.

A second strategy to promote equal opportunity and employment should relate to public education. In this regard, OCASI supports the Premier's stated commitment to "work with volunteer groups, schools, employers and workers in education programs against discrimination, and take full advantage of our hate crime laws."

OCASI recommends that the provincial government play a leadership role in developing a province-wide education program against discrimination.

Skills training is an essential component of equal employment opportunity. For immigrant and refugee clients, it is our clear view that training does work. Especially for social assistance recipients, training can enhance opportunities in the labour market.

Community-based training draws on available resources and expertise to provide sensitive, high-quality training which is culturally appropriate, learner-centred and cost-effective. A study sponsored by Human Resources Development Canada found that programs often report completion rates of 87% to 90%, with a rate of placement in employment or further training of 75% to 80%.

It is our view that many of the programs launched by the Ontario Training and Adjustment Board have been successful. The multipartite composition of OTAB, which includes representatives from business, labour, education and community groups, has led to an enriched understanding of the labour market and to improvements in labour force development policy.

OCASI recommends that the provincial government maintain a multipartite governing body for the Ontario Training and Adjustment Board, including representation from business, labour, service providers and equity-seeking groups.

The concept of workfare is one which is currently the subject of much discussion. We are concerned that there seems to be an assumption that welfare recipients do not wish to better their situations. This is not the experience of OCASI agencies. OCASI agencies are overwhelmed with inquiries from immigrants and refugees receiving social assistance who are seeking ways to upgrade their skills and to re-enter the workforce. Long waiting lists exist for the skills training programs offered by our

agencies. Providers of official language programs cannot meet learner demand for classes. Agencies which provide job placement services are overwhelmed with requests for assistance in finding work. In addition, many agencies are expressing difficulties in providing orientation and training to the increasing number of unemployed people who are requesting volunteer opportunities.

OCASI recommends that the provincial government ensure that a range of volunteer training and learner opportunities is available for social assistance recipients who desire to enhance their labour market participation.

1530

Ms Sharmini Peries: The current government and Premier Mike Harris have taken great pride in their ability to deliver on commitments that they have made. Therefore, we are also heartened by Premier Harris's commitment to promote access to trades and professions, to develop a comprehensive immigration strategy and to boost education programs against discrimination. We believe that there is a great deal of common ground between your government's agenda and the interests of our membership. Therefore, on behalf of the 140 organizations that OCASI represents, we would like to thank the standing committee on finance and economic affairs for providing us this opportunity to express our comments, and we would welcome any questions you may have.

Ms Bassett: Thank you for your submission. I'm the parliamentary assistant to the Minister of Finance, and he's looking to this committee to get recommendations for his budget. So thank you for the many recommendations and suggestions that you had. We certainly will look at them.

I have a question for you because I know from being involved with your association and many immigrants to this country that all the reports show—that I read, anyway—that immigrants are better educated, use welfare less often and contribute enormously to Canada. So I thank you for that, and we welcome working with your association as much as we can.

I understand you met last week, I guess, or 10 days ago with the minister and came up with suggestions, or one of your own members suggested, on how perhaps you could be cutting costs within your own organization. I wondered, since you have a lot of ideas that are on the cutting edge anyway, perhaps you have ideas of how you could cut your own organization and perhaps ideas that we could use ourselves in cutting social agencies back. Did you get any suggestions out of that recommendation that somebody made?

Ms Peries: It's an interesting comment. OCASI, in representing its 140 member organizations that are faced with tremendous government cutbacks at this time, has had no choice but to introduce a number of steps in order to deal with it, and a number of restructuring recommendations have been forwarded to our membership. As well, we are in consultation with the minister right now and are forming a committee to deal with the number of cutbacks that community-based organizations have faced and finding ways to cope with the situation, because in addition to the provincial government, we are also faced with a number of cuts through transfer payments and so on from the federal government as well. So the issue of

trying to manage the situation for community-based organizations is tremendously difficult.

Our focus has been coping strategies and hoping to convince the government that it is cutting back in the wrong areas at this time. The committee that was struck up, with the approval of the Minister of Citizenship, Culture and Recreation, Marilyn Mushinski, is really to deal with it and how to face the restructuring that is going on. I guess at every level, with the federal government, provincial government and with communities themselves.

Mr Kwinter: Thank you very much for your presentation. I can tell you that I think that all governments are making a mistake in not utilizing the incredible resource of our immigrant population. I know that in my riding I have a huge number of immigrants from Russia, most of whom have post-graduate degrees in many disciplines that we could really use, but there are many barriers for them to enter the professions of their choice.

I have a question. I don't know if it's a typo or not. I just find it very difficult in one of your statistics, where you state that in 1951 immigrants comprised 15% of the country's population, and in 1991 they comprised 16%. When you consider the influx after the war, surely the immigrant population has increased by more than 1% in 40 years. That's on page 2. You'll see it in the first paragraph at the top of the page.

Ms Peries: This is actually to I guess dispel the myth that there is an increased burden on the Canadian taxpayer due to immigrants. We are trying to demonstrate there's really no increased amount of immigration, meaning foreign-born, in Canada. That is exactly the message we are trying to get, that you're not actually coping with more immigration, and the statistics do remain true to that.

Mr Kwinter: That is an accurate number?

Ms Peries: Yes, that is an accurate number, and the citation is there for you if you want to check it.

Mr Kwinter: As I say, there certainly is a myth out there because it would seem to me that, since the war, there has been a much larger influx of immigrants from all over the world. That's certainly the perception I had and I think that most people have.

Ms Peries: In this case, the perception is a myth.

Mr Kwinter: When you tell me it only has grown 1% in 40 years, I find that interesting.

Ms Peries: Your perception is obviously, according to our research and statistics, false. I think that kind of perception lends itself to the backlash that immigrants have been experiencing that somehow the Canadian taxpayer, which obviously doesn't include immigrants as taxpayers, is carrying somehow an undue burden more recently than it has in the past. That is incorrect and that's what we are trying to demonstrate.

Mr Kwinter: I'm delighted that you have because I think that's a very interesting statistic.

Mr Silipo: I think it was Susanna Moodie who wrote a number of years ago that we are all immigrants to this place, the difference being that some of us came a little earlier than others. I think that's something for us to remind each other of from time to time.

I appreciated very much the presentation. I do hope—I say this sincerely—that the government takes the con-

structive way in which you've come before us today, because I've heard you argue before governments before in different tones. I just wanted to say, for the benefit of the new members on the government side, that you're seeing here some very constructive advice and I hope that the government members and the government heed it. You are pointing out to us—as Mr Kwinter said; I would agree—that we have, I think governments of all stripes, not done enough to take advantage of the wealth of knowledge that exists among our more recent immigrant populations. With all of the work that we've done, we still are not at the point where we are able to accredit people who come from other countries with various professional backgrounds in what I think should be a faster way than we do today and take advantage of those skills that people have.

I continue to be flabbergasted at how our school system—rather than nurturing the fact that many children come to school with some ability in other languages and developing that, we tend to still resist that. That, I think, is to the detriment of all of us, not just as a society but indeed in terms of the economic strength that can generate. As I say, I hope that the government takes from your constructive suggestions some directions to follow and to act upon.

I just really wanted to get your sense of, as things are happening, as government is cutting—I think you made a bit of a comment earlier in response to one question—do you have a sense that the government is perhaps going about this in a way that's less than fair in terms of where cuts are being made? I take from your presentation that you're here trying to remind us that there are some areas where it's worthwhile to actually stop and think and make some investments, not even necessarily with a lot of money, but ways that in fact can help us. I just wanted to put that out and get your further comments on that.

Ms Peries: Absolutely. What we are seeing is this government encouraging volunteerism, for example. We have to tell you that OCASI and its member agencies, as we say in our brief, have generated one million hours of volunteer service at our agencies. In essence, if you are going to cut back in this area, I can tell you the first staff person to go would be the volunteer coordinator, because it seems that when you are in crisis situations you are often cutting back the fluff in order to protect direct services to the clients. In these cases, you are going to actually in the long run not benefit from the potential dollars that volunteerism adds to the public treasury.

The Chair: Thank you very much. We appreciate your presentation to the committee today. Your thoughts will be taken into consideration, I can assure you.

1540

ONTARIO ASSOCIATION OF RESIDENCES TREATING YOUTH

The Chair: Our next group is the Ontario Association of Residences Treating Youth. Welcome to the standing committee on finance and economic affairs.

Ms Gita Schwartz: Thank you. My name is Gita Schwartz and I'm the executive director of the Ontario Association of Residences Treating Youth, and my

colleague is Diane Doucette, who is one of our board members. I apologize; I don't have a written part of the presentation. I just found out at the last minute and I appreciate being able to be here at all, so thank you for hearing from us. I do have some information, but rather than overwhelm you with more than you could possibly take in a few minutes, I'm going to tell you a bit about our association and how we're looking to cope with current financial and social situations that we all find ourselves in.

The Ontario Association of Residences Treating Youth is a group of 40 agencies that provide residential care for children. We're legislated under the Child and Family Services Act and we do strictly residential care. The one thing that makes our sector unique from others like us is that we are the private operators in children's services. The services that we run are run on a fee-for-service basis. We're paid on a per diem basis.

Our referrals: We're what we call second access because parents, although they call us, very few can actually afford to pay for their children to come into care. We provide care primarily for children's aid societies, for the young offender system and other community organizations, but those too are primary referral sources.

We also work with a number of different types of children. One of them we call troubled youth, although it's not a great title. They are mostly the children who come to us from child welfare where there are serious family problems and protection is an issue. They come into our system through the children's aid societies.

We also work with developmentally handicapped children. These are the special needs children who today still are coming through the children's aid society. These are very often children who have multiple problems. It's not just a developmental handicap problem; they will also have some physical complication or emotional and behavioural problems as well. We work with the hardest-to-serve children in our system.

The third major client group that we handle is children who are medically fragile. These are children who are very, very ill, whose families cannot handle looking after them, and who need the kind of support that our group homes can provide for them. One of the important things to know is these medically fragile children are children who are very likely not going to live a full life the way the rest of us are. Many of them will be dying in our care.

Often what we find in our system, and we work very closely with the Ministry of Community and Social Services, which is where we belong and fit and have made representations on many issues—and Mr Silipo will remember us from years past. One of the most recent things we have told the ministry is, in the area of medically fragile children we see many, many children who live out their lives in hospitals, and it's very, very costly. We're looking at \$1,000 and \$1,200 a day, whereas we provide group homes where we're looking at maybe \$180, \$200 or \$220 a day, just to give you a ballpark figure in the kind of savings that can be made. Not only that, there are savings, but also, really importantly, is the quality of life that a child can have in a group home

which has six or seven children with significant staff, both medical and otherwise.

Those kids have a much better life. You can take them out into the community. You can do stuff with them that—you can imagine in a hospital, who can? There are no workers there to work with those children, tutor them or make sure they have some recreational programs.

We feel we have a lot to offer in terms of restructuring the system. That's just one small piece that I mentioned to you, because I think we can all visualize that really clearly and concretely. One of the things I was trying to figure out what to say here is that our system is quite complex. The whole social service area and working in child welfare is so complicated, and we're legislated here and we're controlled there. I don't want to overwhelm you with information, but I did want to give you a sense of who we are.

Over the last several years, just like everyone else in our system, we have taken significant cuts and what we have found is that we've been doubly hit with cuts, because not only did we take the cuts that came down as part of the social contract and the expenditure control plan, we were also hit in that our referral sources tried very hard not to use our beds, because they had to pay for them. It didn't matter that our beds, for the system at large, were cheaper and more cost-effective for the same quality of service. The reality is there are many transfer of payments organizations providing residential care, so a children's aid society will go, "Well, it's not going to cost me anything to go to a transfer payment agency, get the residential placement there." So that's what they do, and they call them free beds. We all know, and it's just one of those awful things, free beds—there are no free beds, because it costs the taxpayers no matter which way you look at it.

We're on an educating mission to let you know that there are significant discrepancies in the funding basis that we work out of. When you have a transfer payment organization receiving funding parallel a per diem agency where a referral source has to pay, the referral source will automatically go to what they consider the free bed. It's not their fault, and we don't fault them for that at all. It's the way our system is designed. There isn't a level playing field.

What we've done most recently, just at the end of last year, is we made a submission to the Ministry of Community and Social Services, to Minister Tsubouchi, suggesting that residential care in our sector be funded on a per diem basis as opposed to a transfer payment basis. We also developed a model for that happening, which included a lot of the principles of very recent policy work which we've all been involved in. It's called the policy framework for services under the Child and Family Services Act. All of our sector has worked hard over the last several years to come up with principles that we all believe in and are important for us to move towards, like coordinated access to service, which would be one. Equitable funding would be another; integration of services so they make sense to our customers and not just to us. One of the real problems in our system is that parents get lost. They don't know where to go because it is quite complex and there are so many levels.

We've incorporated those basic principles that we all have come to understand as important in our sector and developed a model which includes local planning, where local communities take responsibility for the children in their areas who need placement. I should also mention we're very aware that residential services are expensive, and that's one of the things people talk about a lot and one of the areas where it's been hoped to cut back, and indeed over the years it certainly has cut back. As agencies have been constrained more and more, they look for other services, and they have developed some good ones: wraparound services where workers are sent into a home when a family is starting to collapse and look like they may have to take the children away. So there are lots of services that have developed, and they're fine services.

What we know to be also true is that there is always a need for residential care because that comes along with the whole mandated services that children's aid societies have. When children are in need of protection and they need somewhere to go, they come to us, so there will always be a need for residential care. We feel strongly that there needs to be a level playing field to make residential care available and accessible to the people and the children who need it. We would find, and we believe, that doing that on a fee-for-service, per diem basis would be the way to go.

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Let's see, I guess that would be the most important thing that I want to tell you about. I have copies for you of the actual proposal. I didn't want to get into the lengthy details of it. What backs up the proposal, I think, and what's important to know is there have been some studies done—and unfortunately we don't have a lot of studies in our sector about how things break down and the costs and the quality and how do you assess the quality of care. It's all very grey area and we all have passionate feelings about it, but there's not a whole lot of research done.

But some of the preliminary research, and it's a part of this document I'm going to give you, shows that the per diem sector provides residential service at a significantly lower cost than other sectors do. If you look at these documents, you will see differences of between \$50, \$100 and upwards to \$300 a day, depending on the service and what you're looking at. So we feel that there's easily \$25 million to \$30 million that could be saved in residential care if we were to move the system over to a fee-for-service-funded mechanism. That's a significant alteration for our partners in care and would require a fair bit of work, but we feel excited and interested and are talking about how one would implement that kind of thing were it to happen.

The other piece is that we've been talking with our partners, the people we work with regularly, and actually there's been a fair bit of support, both in our sector and at the ministry level, for moving things to a per diem funded mechanism. The details of how that might happen remain to be seen and people are trying to verify some of the funding pieces we have talked about.

I'll stop there and ask you if you have any questions that you'd like to ask us about in our sector.

Mr Crozier: Thank you and hello. Could you, for my information—and I don't know whether I'm the only one who doesn't realize this—did you say the children's aid society is a transfer payment agency?

Ms Schwartz: By transfer payments, I mean the government gives a lump sum on a monthly, quarterly annual basis for the operation of an organization. So yes, a children's aid society is a transfer of payment, as are other residential care providers.

Mr Crozier: What's their alternative? You said they don't use you because you're on a per diem. What is their alternative if they choose not to use you?

Ms Schwartz: Which they do often. Their alternatives are transfer payment organizations that are funded by the Ministry of Community and Social Services to provide residential care, of which there are many, you see. We've become the resource of last recourse, so to speak, and because of that we get the hardest-to-serve children.

Mr Crozier: And your responsibility is legislated?

Ms Schwartz: Absolutely, and we're licensed by the ministry.

Mr Crozier: So notwithstanding the fact that your funding may be reduced, you, under law, have to provide the service.

Ms Schwartz: Yes, as long as we're functioning, there are levels that we have to adhere to.

Mr Crozier: Does not that put you in a rather awkward position?

Ms Schwartz: Yes, absolutely.

Mr Crozier: Could you tell me how awkward a position it is? How difficult does this become, if you have to conform to certain standards and legislation on one side, but the government says on the other hand, "You can't have the money for it," or, "You have less money for it"?

Ms Schwartz: It's been very difficult. The last few years, people have trimmed away everything they possibly can, so administration goes out the window and many people today are very concerned that they might not be able to keep their businesses going. They are, in the end, private operators who have to make sure they can meet their payrolls and not lose money while they're doing this.

When private operators first started, you saw a lot of individuals setting up small group homes where they would have one group home with six or seven children in it and then, as the system became more sophisticated, you have people who will run three and four group homes and also provide specialized foster care. People have grown.

What I've seen happen over the last few years is those small operators, they're losing, they're going out of business. There are still a few of them around and I don't think they're going to last much longer. Larger organizations have more of a chance to even out how they operate and carry on.

Ms Castrilli: Could I ask you to repeat the figures for me? You said the cost of caring for a child in a residence represented by your association is in the nature of \$180 and \$200 a day. Is that right?

Ms Schwartz: It depends on what kind of child you're talking about. When I was referring to that, I was talking

about medically fragile children who you will often also find in a hospital, that can cost five times as much as we cost, and the child would get more quality of care in a smaller place, where their needs could be attended to. So if we're looking at like the \$200 range, we're talking about children who are the medically fragile children who require medical attention.

Ms Castrilli: Is your range \$180 to \$100, or is it somewhat less than that \$200?

Ms Schwartz: If you look at the whole range, it goes anywhere from \$80 to about \$220, depending on how intensive the service is.

Ms Castrilli: With regard to institutions, what do those cost?

Ms Schwartz: Again, I'd have to say that varies also quite a bit, but you'd be looking at anywhere from \$50 to \$300 difference, and I kid you not on this. I should hand these out, because it's a part of this package.

Ms Castrilli: It's \$50 to \$300 more than \$80 to \$220?

Ms Schwartz: Yes. That's very broad, but—

Ms Castrilli: No, I understand, but what accounts for the difference?

Ms Schwartz: What accounts for the difference? Several things. When you get a budget and you've negotiated with the government for what your annual charge can be, there's been a lot of flexibility. If you're a good negotiator, you have a very healthy budget to work with. Private operators, on the other hand, only get paid when they're working, when they have children in their homes, so they have to keep their costs down, they have to make themselves look attractive and still provide a quality service.

Ms Castrilli: The per diem would help in that.

Ms Schwartz: Yes, and if I might add something too, in the 1980s, there was lots of money around so you had agencies that really did do extremely well and were able to provide sophisticated programs and lived healthy lives, and that's still reflected to some extent, even though everyone has taken constraints.

Mr Silipo: Thank you. Hello again. Could you talk a little bit more about one of the things that you touched upon towards the end of the presentation, which is that through the fee-for-service system that you are advocating we could save, I think you said, about \$30 million. How would that work?

Ms Schwartz: One of the things we did, and you'll see this in our documentation if you have a look at it, is we went through information and there's a feasibility study here done by a consultant named Bob Fulton. What we did is gathered up all of the dollars that are spent on residential care in Ontario—to the best of our ability, because those figures are not easily come by too, and I'm talking about in our sector, under CFSA; it's not broader than that—and we came up with approximately \$337 million as that figure for residential care. That has never been pooled anywhere so far.

With our understanding and our information around per diems—and what you should know is our average per diem in our sector is about \$130 a day—what we did is we figured if there is an average per diem in the system, and we base it at \$200 a day, which we think is very doable and in fact would be a raise for private oper-

ators—now, it would be a coming down for others in the system as well, although not for everyone. If you did that calculation based on the number of days of care, the number of beds there are in the province, we came up with approximately \$20 million.

In our proposal, there is a provincial coordinated piece where there is a database that carries the information of where there are beds available, what kind of beds they are and who they might service, and what that does is take away the need for children's aid societies, every single worker, calling every place they know of to find a bed. You see, right now you might have 500 workers across the province looking for placements for children, calling around. All they'd have to do is call one place and we would have the stats available and let them know, "These three agencies are possibilities for your kid."

We assume there would be another \$10 million in savings just in placement costs, all the effort and human work that goes into placing children. Right now, it's very disorganized. There's no centralized access.

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Mr Silipo: I appreciate that you deal with predominantly one particular group of young people in need of help, but can you, from your perspective, give us some insight into what is happening in the whole children's services area as a result of the fiscal constraints that agencies are having to deal with? I know this is obviously not something that is new. Agencies have been dealing with this—I think, it's even useful to remind people that the social contract savings that were achieved in this sector were done differently than they were in the rest of the system, through agreement more than anything else. But what is happening out there?

Ms Schwartz: One of the things that has become obvious, and it has been happening over the last several years, is that the children coming into care are getting to be more and more and more difficult children. We don't see normal kids any more. It just doesn't happen. They go into the foster care system, which is a much cheaper system.

The children we see have tremendous difficulties by the time they come into care, because children's aid societies are being forced for fiscal reasons to intervene later and later in a child's life. They're coming to us older, they're coming to us with way more problems and, as we're having to adjust and make our own economic adjustments, we worry for the safety of the children and the staff.

We're really concerned, because one of the things we also see happening, and I think this is just true, is, as we're not helping children through the social service system, which has been happening now slowly over the years, we're going to be pushing them into the criminal system. If we can't help youngsters when they first come and present us with problems, then we'll be dealing with it at the back end, when they come into the criminal system and, frankly, it's a much more expensive system.

Ms Bassett: Thanks so much for your presentation. As you know, the Minister of Finance is very interested in getting input on innovative ideas that he can use in looking at his budget, certainly in the delivery of services more cost-efficiently.

I was interested in your presentation, where you mentioned that you saw that the placement system was sort of disorganized. Then you came up with, secondly, another idea of the per diem, that you could save so much money. Do you see other room for reorganization that might make things work better, but certainly would be more cost-efficient?

Ms Schwartz: Our proposal, as I said, does exactly that, and we are experts in residential care, so it's very hard for me to comment on other pieces. I think when it comes to residential care, we're prepared to work really hard to see that happen. As I said—

Ms Bassett: And "our proposal" you will give us after?

Ms Schwartz: Yes. Actually, I can pass that to you now.

Ms Bassett: Okay, and then we could get back to you when we look at it if we want.

Ms Schwartz: Please, yes. We also feel, quite honestly, if this were done and it were done starting tomorrow, if someone were given the task of implementing this, it could be done quickly, for one thing. Although it will be complex and there will be many details to sort out, it can be done quickly. I think six months to a year is a possibility to have a new system in place.

Ms Bassett: Without sacrificing the overall good of the individual.

Ms Schwartz: Absolutely. In fact we think the system would be improved. We really do, because you'd have coordinated access and people would be able to get information that they need. Absolutely.

Ms Bassett: My colleague, I think, has a question.

Mrs Marland: I was interested when you referred to the agencies in the 1980s, when there was lots of money around. I think, having been involved personally in those years, when many agencies were established and consequently many matching facilities were established and probably some of those are in the membership of your association—I know we've gone through very difficult times even to this point, because there were years there when previous governments were not able, by their own decisions and priorities, to give sufficient funding to support even foster parents and foster homes, which is another alternative referral point for young people in distress or in crisis.

I remember when we were asking to increase the rate for foster parents—because our children's aid societies across this province were absolutely desperate because they had nowhere, even on an emergency basis, to refer those children and young people because people couldn't afford to be foster parents and provide foster homes at the rate they were being paid. For a while I think that improved a little but there is still a great shortage in that area alone, and you're here representing sort of the commercial end and the private sector in another way of providing this kind of service.

What I would like you to comment on is the eternal debate about institutional care for young people with special needs, and although yours is youth, I think it's just as relevant to younger children, the debate about institutional care versus other types of care. Because where we may be coming from is the fact that institu-

tional care is an extremely expensive way to deliver the personalized care that these special-needs young people have. Yet there are children for whom returning to their homes will never be an alternative because there's absolutely no way that their families can cope. I've dealt with families in that kind of crisis, whether we're talking about children with severe developmental disabilities or children with behavioural problems.

I'm wondering if you can comment on how, and again it may be in this report that you have that we haven't seen, but on how you see the government best making those decisions versus keeping some of our institutions going at a tremendous cost, and even your comparison of per diems to hospital care. But in the step out of hospital care into strictly institutional care, how do you see other types of service being provided that, in the long run, are not going to cost the people of Ontario more money than necessary and yet deliver us, as being a compassionate modern society in this—I was going to say in this century, but in the 1990s and into the next century—as being a responsible society, to help and give the care that is needed by these particular clients.

Ms Schwartz: It's a huge question that you ask and it's hard to know where to begin, but I can tell you one concrete thing that comes to mind immediately is that in our sector there are several directly operated agencies—and what I mean by directly operated is they are directly operated by the government. There's Thistletown, there's Syl Apps, there's CPRI and there are a few dotted across the province. There aren't many of them. They're very costly. Our recommendation would be to collapse them and give that money back to the community so it can decide what resources it needs, because I do believe that they can do that more cost-effectively than huge organizations such as those. That's just one small piece.

I think systemically we've been moving away from institutionalization anyway, and I do believe it is cost-effective and better for children too, to feel closer and closer to a home environment.

Mrs Marland: Do you agree with giving the funding directly to the client?

Ms Schwartz: Oh, that's a whole other one.

The Chair: Thank you very much. We have run out of time and we do appreciate your presentation to the committee on a very sensitive area of our society. Thank you very much for your time.

Ms Schwartz: Thank you. Where shall I leave this?

The Chair: If you could leave it with the clerk, he will ensure that it's distributed to the committee.

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CANADIAN FILM AND TELEVISION PRODUCTION ASSOCIATION

The Chair: Our next group is the Canadian Film and Television Production Association. Welcome to the standing committee on finance and economic affairs.

Ms Elizabeth McDonald: Mr Chairman, members of the committee, my name is Elizabeth McDonald and I'm the president of the Canadian Film and Television Production Association. Today I'm joined by Stephen Ellis of Ellis Enterprises. Mr Ellis is a member of the

executive and board of directors of the CFTPA. I'm also joined by Steve Ord, who is vice-president and general manager of Atlantis Films Ltd and a very active member of the Ontario producers' panel of the CFTPA.

Our association is the national trade association that represents the interests of over 300 independent producers that operate in every region of Canada; however, from your perspective, you might be interested to learn that about 65% of all industry activity takes place in this province and that more than one third of CFTPA members reside in Ontario.

Mr Stephen Ellis: As all Ontarians know, the budget that you are now preparing will be very critical for the people of this province. From the government's viewpoint, you are clearly trying to balance the commitments made to the electorate as part of the Common Sense Revolution while at the same time ensuring that Ontario businesses can continue to thrive, create economic activity and jobs.

According to Ernst and Young, the film and television business is a \$2.7-billion industry for Ontario. Statistics Canada data tell us that the independent production sector annually generates \$500 million in direct spending and more than \$1 billion in indirect spending for the province. This is fairly remarkable when you consider that was only a \$134-million industry in 1985.

A recent study undertaken by the association tells us that the industry is indeed export-focused. In terms of the overall national economy, the export value of the independent film and television business in 1994-95 was about \$1.2 billion. Again, because the industry is so concentrated in this province, Ontario is the major beneficiary of the industry's activities in the global marketplace.

Beyond attracting investment to Ontario, the independent production sector creates jobs—35,000 in the past year alone. These are great jobs, jobs you would want your children to have. They're value added, they're available at the entry level. We provide training too that complements what our young people learn in the post-secondary system.

In other words, Mr Chairman, members of the committee, independent production is good business for Ontario.

Mr Steve Ord: The independent production sector is a high-risk, project-based, extremely mobile industry with low profit margins. Because of this, the industry has had to rely on government incentives to create the industrial infrastructure that allows companies like Atlantis to create jobs, stimulate innovation and economic activity in Ontario.

Governments throughout North America support the film and television sector through a variety of incentive programs. In Canada the most active provinces are Quebec, Alberta, Manitoba, British Columbia, Nova Scotia and, of course, Ontario.

In this province we have been very lucky to have the Ontario Film Development Corp's OFIP program, which is the Ontario film investment program. It has proven to be an efficient and cost-effective means to deliver support to the industry. In the 1993-94 period, OFIP support of \$30.4 million triggered production spending of \$175

million. It created an incremental gross domestic product increase of \$210 million.

While CFTPA Ontario members believe that programs like OFIP are a critical ingredient that attracts them to do business in Ontario, we also understand that the present fiscal environment of the province calls for new approaches and creative thinking. Programs that have been in place need to be reassessed. This is why we are appearing before you today.

OFIP has clearly worked for us in the province, but it may not be appropriate in today's environment. This is not the first time that this association has met with a government to discuss change. About a year and a half ago we met with your federal counterparts to discuss a federal program called the capital cost allowance program for film and television production. The federal Department of Finance officials, in partnership with Canadian Heritage and ourselves, agreed that the CCA program was too expensive, with much of the moneys not going to the benefit of the production of high-quality Canadian programming. Collectively, we came to the conclusion that the better approach would be the introduction of a transparent refundable investment tax credit program.

The RITC, as it is now referred to, was finally launched by the federal ministers of Finance and Canadian Heritage on December 12, 1995. Even though the program only become operational in December, producers were made aware of it at this time last year. This permitted a phasing out of the CCA program so that the industry continued to have support during a transitional period. The industry therefore was not destabilized and producers could adjust their financial plans as required.

As you see, we are an industry willing to work with government to solve problems and keep investment and jobs in Ontario. We know you have some difficult decisions to make. We also know that the introduction of the refundable tax credit on the federal level has opened a new door for Ontario.

With the windup of the capital cost allowance tax shelter program, at least \$25 million will be returned to the provincial treasury. That, coupled with benefits the independent film and television industry brings to Ontario, creates a unique opportunity for a new partnership between the government of Ontario and our industry to develop a new program that will stimulate economic activity within the confines of Ontario's fiscal reality.

I'll pass it back over to Stephen.

Mr Ellis: Mr Chairman, members of the committee, the Ontario members of the CFTPA are committed to working with you to find new ways to provide incentives to the business that will work within the fiscal framework. The one concern we have is that to keep the sector active and vital within the province, we will need to make sure that we create a bridging mechanism that allows a smooth transition between a program like OFIP to one that may make more sense today, such as a tax credit system. This will guarantee that the independent film and television sector will continue to provide a net benefit to this province in terms of both investment and jobs.

Thank you for your attention. We'd be pleased to answer any questions.

Mr Silipo: Sorry, I was out of the room at the beginning. I was trying to get caught up, but I think I have very much the sense of what you're saying, looking back at some of the notes from your presentation.

Could I just understand the level of the cut that you're having to deal with, first of all, in OFIP?

Ms McDonald: I think at this point the OFIP funding is frozen, and we don't know what is going to happen.

Mr Silipo: But your fear is that it will be eliminated?

Ms McDonald: Eliminated without anything to replace it.

Mr Silipo: Without any transition.

Ms McDonald: And without any transition. We've been very actively try to develop a response that will continue to encourage the economic activity within the province but that at the same time fits better within the industry's plans.

Mr Ord: As I understand it, in the last few years the budget of the OFDC, the Ontario Film Development Corp, was in and around \$25 million a year. With the freeze that came into place in the middle of last summer, the level was reduced to roughly about \$15 million.

Mr Silipo: As you point out in here, there's certainly a good argument that can be made in terms of the cost-benefit of that investment being made in terms of the private dollars that it generates. But again, even if we put that aside, you're saying even if that fund is going to be eliminated, what you need to know is that there is some way of getting from where we are now to that position, rather than trying to do it overnight and creating some chaos in the industry or the loss of other additional investment that would otherwise be there.

Ms McDonald: Yes.

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Mr Silipo: All I can say is, certainly from our end, that seems to be eminently sensible. One of the problems we are seeing in a number of activities by the government is that because they believe so strongly in being out of the realm of these types of investments, whether it's in the film industry or in any of the other sectors, while they seem to understand, they don't seem to buy very much the argument that says spending of public dollars in a strategic way does generate additional private dollars. Only by having business people like yourselves come before us and show what this means in real dollars and in terms of the addition of jobs and investment is there any chance that in fact government members might start to think about this again, and we hope that they will.

Mr Wettlaufer: I'd like to assure you that the OFIP is being reviewed. That'll give you some reassurance; albeit how much, I don't know.

Would a reduced tax burden on your industry stimulate and attract film and TV production, development and investment in the province?

Mr Ord: Our sector is basically driven by project financing. When OFIP or the federal government invests in a film production or a television production, they don't invest in the company, they invest in the project. Each project, in effect, competes for those dollars with every other producer who has a project. Because of that, the industry revolves around the productions themselves, not so much the companies.

At the federal level, the new refundable investment tax credit is a way of, in effect, having the federal government match some dollars with the money that's raised privately by the producers as a way of encouraging them to invest and to produce in Canada—Canadian productions. That is an incentive that clearly works. In terms of corporate tax incentives, I suspect they may be less helpful.

Mr Wettlaufer: When you say you compete with other projects, do you mean you're competing with other projects from outside the province?

Mr Ord: Yes, absolutely. The company that I work for, Atlantis Films, is one of the largest producers of television programming in Canada. There are only so many spots on television networks for television shows, and those broadcasters either buy Canadian shows or buy American shows. Within the area of Canadian programming, we would compete with other producers to convince those broadcasters that our shows are the best shows and will attract the best audience and are the best quality. That is really the competitive nature. That spills into the funding area because this is a business that is very market-driven, and usually whatever government assistance exists follows the initiative that the private buyers have taken in terms of selecting which shows are made and which shows are not made.

Mr Wettlaufer: Do you have a projection as to how many additional jobs you may be able to produce in Ontario this year if there is a reduced tax burden?

Ms McDonald: Excuse me, do you mean a reduced tax burden—

Mr Wettlaufer: To improve your investment in the province.

Ms McDonald: In the companies? One of the issues we have is that we have very few large companies and many, many smaller companies, so that the tax burden issue varies so much according to the size of the company and many of them would get relief from the tax system in different ways. That is, while we looked at it, we felt it would not be appropriate to stimulate the industry and keep the production up to the level. We have companies that are one and two people, and so they are in a completely different kind of corporate tax and are not burdened in the same way that some of the larger companies are.

Mr Ellis: If I can just add to that, at the same time, a one- or two-person company during a given year might have a project it's been developing come to fruition that would involve shooting a \$2-million film. So for a short period of time, maybe six to eight weeks over the summer, it'll suddenly go from employing the two people on the payroll for the rest of the year to employing a significant number of people, 50 to 60 people, for the duration of the summer. The result is that it's a very elastic industry. It doesn't have a huge investment in bricks and mortar; or in payrolls, which are flat throughout the year. It's very seasonal.

I guess another of the concerns that we have is that with other jurisdictions offering incentives, it's also a very mobile industry. We've already determined to some extent that there have been some projects go to other provinces since the freeze last summer. It's obviously a

trend that one doesn't like to see, given any instability that's introduced. So at this point I guess as an organization we're facing the music. The change is inevitable, but the question is can we stabilize things or not see a situation where the industry goes on hold in terms of an incentive that's been working. Elizabeth, you're familiar with the Quebec situation.

Ms McDonald: Yes. We've looked at a variety of programs. I guess because of the different nature of the industry, it's hard to make it as homogenous, to respond to your question as we would like. There has been a series of investment programs across the country. Quebec faced a similar situation to the Ontario government and it went to a tax credit program because it felt it was more efficient, it was aimed at labour. In other words, it encouraged, as does the refundable tax credit, the film and television industry to hire people. It went to the heart of what was important to the province. However, when that province introduced its tax credit program, it went through a period without any transition and there was just nothing. The industry almost collapsed in Quebec, and it's taken it three years—it's starting to come back. I would believe people within the department and within your government may want to check with Sodeq and with our francophone counterparts in that province.

But the nature of the industry is that it's so project-driven that something that removes the support for a period of time can destabilize it. On the other hand, if it can be continued in some way—and that's part of the reason we're telling you that there is money coming from the federal coffers that will be returned to Ontario, there's kind of a helpful solution there—if we can continue to have supports and go through a transition and move to something that works better, and perhaps has less of a burden administratively as well, then that activity can grow and flourish in this province.

People like to do work here in Ontario; in the Toronto area, but throughout Ontario. It provides a good workforce educated in Ontario institutions. It works well on a lot of bases. It creates jobs not only within the sector but without it as well—in the hotel business and all of those things that of course you who live in Toronto particularly see but we see in other parts of the province as well.

Mr Kwinter: Thank you for your presentation. I, for one, having been the minister responsible for your industry, certainly appreciate the fact that next to Hollywood and New York, this is the largest film development centre in North America. I think it's important that members of the committee understand that it isn't just what you see on the streets every day. It's the pre-production, the post-production and that critical mass that is developed that makes Toronto an attractive place in which to produce film and television.

The problem I think the industry has, and the problem I have particularly, is that the minister has made a statement—this is the Minister of Economic Development, Trade and Tourism—that economic development cannot be created by government assistance. So the question is, if you guys are so good and your product is so good, why don't you do it on your own? What do you need the government for? I'd like you to respond to that.

Mr Ellis: I think all of our members operate in a highly competitive environment, one in which the competition is international in fact, because of course Canadian and Ontario viewers when they sit down and watch television or go to the movie theatre, they aren't really thinking through the process of whether they want to see a Canadian versus an American film. They just want to see a good film or a good television show.

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The difficulty is that the Canadian market generally, and a lot of the national broadcasters of course are based in Ontario, simply doesn't pay the freight. To attract viewers, whether it's at the box office or in front of TV screens, you have to make a product that looks as good as Hollywood, but the Canadian market simply won't support it. The producer here typically recovers about a third of their production cost from the domestic market. As a result of that, historically, a number of measures have been developed to try and even the playing field a bit for the Canadian producer.

The way a program such as OFIP has worked and works so successfully is not so much that by investing a dollar in a particular project it's simply adding a dollar to a project that might have happened anyway; it's that it provides a form of leverage for the producer. Very often a producer is having to line up their sale to the Canadian market, a sale to a foreign broadcaster perhaps, and may still be missing a third of their financing or, in the case of OFIP, as much as 20% sometimes is invested. The result of that is the project may go away.

Whereas it might be budgeted at \$1 million and therefore generate \$1 million-plus in terms of investment in the province, if it simply goes away because there's a missing 20%, then OFIP will make the difference between that \$1 million being spent in the province and zero being spent in the province. It's not quite the same. As Steve was saying, because it's very project-oriented, a rather small investment on the part of the province is the difference between a project simply being made here or not being made in the province or not being made at all. It's a form of magnetism, if you like, to attract projects that are otherwise going to be made elsewhere or simply not made at all. So we look at it from a different point of view.

Mr Kwinter: I think one of the most dramatic ways of seeing how competitive is the situation is that if you ever watch a movie, invariably at the end of the credits they will give credit to some jurisdiction for its cooperation and assistance in producing that film. It is a very competitive market and it will go where they can actually get it produced. If they can't get it produced in a jurisdiction, there are lots of other jurisdictions that are quite prepared to let them do it. Is that a fair comment?

Ms McDonald: Yes, absolutely, and I'm sure Steve Ord would like to respond to that. I just came back from British Columbia and certainly it's looking with some interest at what this province is doing. They've got a great infrastructure there. They'd be happy to welcome the business there. Nova Scotia's also very active as well. When that stimulant isn't there, you're quite right: It moves.

One of the misconceptions of this industry is perhaps because of our proximity to the US border, where everybody compares the industry in Canada to the American industry. I believe that even within certain jurisdictions of the United States, to have production take place and stimulate activity, there are many states that have OFIP-like or tax-credit-like programs. All through Europe there's activity between the various members of the European common market to try to get the projects going there, to keep people busy and to create product there. Even within the American jurisdictions, you're absolutely right, funding exists and it's exactly to make sure that the activity takes place in that state. We see it in Europe as well.

Mr Ord: An interesting example is the state of California. It used to have tax incentives if you produced in the state of California. When they had those incentives, roughly 95% of all television movies that showed up on American networks were produced in California. After they eliminated those incentives and other states chased that business, that share dropped to 25% almost overnight, and California's trying very hard to bring the business back.

It's important to really understand that in this business it's a very narrow margin business, so if you get a very small incentive it's enough, whether project (a) happens, or (b), where it is produced. OFIP's leverage is around seven to one. Every dollar that it spent is bringing about \$7 to the province in rough numbers. I think it's important to understand that argument.

The other thing that it is also very important to understand is the market we're in. The Canadian market is a small market. We're producing for 20 million English-speaking people, speaking for Ontario producers, in Canada. Our counterparts in the United States are producing for 260 million English-speaking people. Therefore, what a buyer—a broadcaster or a distributor—is going to pay to a producer in Canada is a fraction of what it costs to make that film. If you were CTV or Global, you'd choose between buying a Canadian show like, for example, a show my company I work for produces called *Traders*, or buy an American show. They can buy the American show for, say, \$50,000 an hour to licence that show. A show like *Traders* costs \$800,000 an hour. That's the fundamental economic difference that exists in Canada and why incentives have helped to really build the industry.

The Chair: Thank you for your time and coming in and presenting to us. We appreciate it very much.

ONTARIO PROVINCIAL POLICE ASSOCIATION

The Chair: The final group today is the Ontario Provincial Police Association. Welcome to the standing committee on finance and economic affairs.

Mr Brian Adkin: Thanks very much. We appreciate your seeing us, Mr Chair.

My name is Brian Adkin and I'm the president of the Ontario Provincial Police Association. With me today is Rick Cazabon, chief executive officer of our association.

We are here today to speak about the OPP budget and to ask all of you to ensure that the budget will not be reduced. We are not here to talk about raises or bargain-

ing. We are here to talk about public safety and police service delivery. These are critical issues to all the citizens of Ontario and especially the residents of rural Ontario and our own members.

Two weeks ago, a document was released which revealed extreme OPP police service reductions if the OPP budget were cut by 20%. We are gravely concerned about this type of projection and the impact it would have on police service delivery for citizens of Ontario as well as the message it would send to the criminals of Ontario.

We are aware of the tough choices this government will have to make. The people of Ontario also expect you to make those choices, but they need to be protected, have assurances about health care and be educated. Beyond that, we can all do more with less. We can all pay user fees for any service beyond the norm.

The Ontario Provincial Police was formed in 1909. It is the law enforcement service for the province of Ontario and derives its mandate and authority from the Police Services Act.

Subsection 19(1) of the Police Services Act states:

"The Ontario Provincial Police have the following responsibilities:

"1. Providing police services in respect of the parts of Ontario that do not have municipal police forces other than bylaw enforcement officers.

"2. Providing police services in respect of all navigable bodies and courses of water in Ontario, except those that lie within municipalities designated by the Solicitor General.

"3. Maintaining a traffic patrol on the King's highway, except the parts designated by the Solicitor General.

"4. Maintaining a traffic patrol on the connecting links within the meaning of section 21 of the Public Transportation and Highway Improvement Act that are designated by the Solicitor General.

"5. Maintaining investigative services to assist municipal police forces on the Solicitor General's direction or at the crown attorney's request."

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The OPP is comprised of 5,811 personnel, consisting of 4,627 uniformed officers and 1,184 civilians. The organization is divided into six regions with regional headquarters situated throughout the province and general headquarters in Orillia. The OPP operates 180 detachments throughout the province.

It is estimated that the OPP provides its policing services directly to about 39% of the residents with an extension to about 45% to 55% when the transient population is considered.

Our 180 detachments are located throughout Ontario and at these locations we provide full policing services to the residents of rural and municipal Ontario. This includes patrol, investigations and support service requirements. This policing function is critical for public safety and wellbeing.

Our client base live on concessions and township lines where response time is measured in hours and fractions of hours depending on the victim's location. These types of locations make response times and adequate personnel even more critical. The OPP is responsible for the lost hunters, hikers and tourists who so often underestimate

the majesty and the elements of Ontario. The OPP also operates summer detachments to deal with increased tourist activity in resort areas.

The OPP maintains specialized investigative services to enhance front-line policing functions and assist municipal police services that cannot afford this scope of service. Investigative support bureaus provide expertise in criminal investigations, commercial crime, auto and heavy equipment theft, criminal intelligence and narcotics investigations. Our members from these bureaus have been recognized as experts in their fields and not only provide leadership, but also assist in training other smaller departments to perform these tasks.

OPP traffic responsibilities include the policing of all 400-series highways, the Queen Elizabeth Way and King's highways in Ontario, as well as the traffic function within our detachments. In support of this function, the OPP also has officers trained in unsafe vehicle enforcement, commercial vehicle enforcement and dangerous goods handling enforcement. This specialized traffic function is extremely complex and requires a high degree of expertise. The OPP also has a specialized provincial traffic and waterways safety bureau which provides front-line support for these officers.

The OPP marine policing responsibilities are extensive, and to accomplish this task we have a large fleet of launches and skiffs. Our underwater search and recovery units complement this function.

The OPP is involved in providing support and assistance to all the police services in Ontario in the areas of tactics and rescue units, forensic identification and emergency response teams.

The OPP is frequently called upon by crown attorneys to provide investigative assistance to police services on all types of investigations. Assistance and investigative support is also provided to the chief coroner's office.

The OPP participates in several joint forces units for extremely serious incidents. These types of units are critical as they target specific organized criminal groups that derive large profits from their criminal activities.

The OPP also conducts intensive criminal investigations involving force personnel from our own detachments. The subject matter of these cases is often homicide, drugs, theft, break and enters and commercial crimes.

The OPP can also be described as the only rapid deployment force in Ontario. When a large problem, special detail, disaster or criminal occurrence takes place, the OPP is required to respond. Past events such as the Hagersville tire fire, native occupation of Ipperwash, unrest at Akwesasne, the Barrie tornado and large labour strikes and demonstrations are but a few examples of when the OPP is required to mobilize large numbers of members to act immediately to ensure the safety of the Ontario public.

However, this responsibility imposes a higher threshold on our force than any other police service in Ontario. That responsibility is maintaining the service delivery to our residents and businesses in our detachment areas while we supply officers to police these contingencies. For example, there were approximately 250 officers at the Ipperwash situation. These special situations also take on

identities of their own. They require specialized communications, supplies, staffing, command and personnel support. Time is not usually on our side, nor is it on the victim's side, who look to the OPP for support, immediate response and help.

There have been many discussions about the term "front-line policing" in the last year. I can assure you that our organization is totally dedicated to supporting our front-line officers. If we should have our budget reduced, it will definitely have an effect on our ability to provide specialized investigative services to our clients.

OPP field service delivery is vital and cannot be reduced to the people of rural areas which we serve. The people of Ontario also deserve the highest quality of policing available. That means that officers responding to occurrences can request and receive specialized investigative support from the bureaus, which have the knowledge, skills and abilities to help them. It makes no sense to have a complex investigation completed and then have it fail before the courts because the proper expertise was not available when required. The people of Ontario have the right to expect that their calls will be answered promptly by detachments which are properly staffed and which have the proper complement for the area and time.

In 1993, the government of Ontario came to the OPP and the OPP association and said that our budget was going to be cut by \$17 million. The force immediately began a comprehensive organizational review to determine areas where we could restructure and save money. The OPP association also participated in this process, both as members actively working on the review as project workers and negotiating with the government as part of the social contract. The OPP Association and our police association colleagues in the Police Association of Ontario, who incidentally are here seated behind me, negotiated to help the government through this difficulty. The police sector is the only area where this type of negotiation occurred.

The OPP completed the organizational review, which has resulted in savings of approximately \$15 million. The entire structure has been redesigned to provide an efficient service delivery. OPP commissioned officers have been reduced from 130 to 100. OPP civilian staff will be reduced by approximately 300 people. Many of our detachments were clustered or right-sized to deliver an efficient service. The terms "right-sizing" or "clustering" mean amalgamating detachments and reducing or eliminating administrative functions which can reasonably be accomplished by one location.

Technology is being used and implemented wherever possible. The OPP has reduced administration to the minimum while remaining cognizant of the need for proper supervision and support for our members. The OPP staffing level is based on a 92% response model. The government cannot expect the OPP to further reduce staff. The OPP cannot go any further to reduce staff.

The government must also recognize how complex policing has become. Micro scrutiny by the courts of all aspects during the course of investigations places demands on police services as never before. Ontario is the leader in Canada for jurisprudence, which has resulted in strict procedural guidelines for the police. The cost for all

investigations, including specialized services, has risen as well, and this is not a privilege that only residents of large cities should enjoy. The people of Ontario have the right to expect the highest quality of service wherever they live.

The OPP has reduced from 16 district headquarters to 6 regional command offices as a result of the organizational review. These savings and decisions were made from within and are now being implemented. This redesign removed the inefficiencies in the system and will enable us to complete this decade and prepare us to enter the next millennium in a streamlined manner. We do not have any remaining areas to cut.

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We could, however, do some fine-tuning. We need financial control of our destiny. Cumbersome purchasing procedures continually frustrate our desire to do business in a more economical way. We need to be more like private industry and streamline the way we acquire our equipment and supplies, for example. The bureaucracy for purchases of any kind is very complicated. The inability to single-source during tendering processes for equipment purchases such as hats, boots and patrol jackets complicates obtaining these items.

The OPP has also been dependent on the information resource division of the Ministry of the Solicitor General and Correctional Services for technology capabilities. The ministry outlook is to support all divisions equally. Our position is that the OPP has special needs to be able to respond to emergencies and increase efficiency in operations. We are dependent on technology and require focused development for our needs.

The OPP also needs to access the revenue it generates. We provide services to the public on a cost-recovery basis at detachments, such as providing reports, photocopies etc. Money generated by this type of service needs to be credited to OPP operational budgets rather than the consolidated revenue fund. Service fees for visas, reports, letters and firearms permits etc must reflect the real cost of performing these functions.

Police oversight is another area where savings could be realized. In addition to the OPP professional standards bureau, mandates of the special investigations unit, or the SIU, the public complaints commission, or the PCC, the Office of the Ombudsman and the Human Rights Commission overlap each other, which results in duplicating costs. These areas need to have their functions reviewed, parameters narrowed and operating costs examined. We believe the people of Ontario are not aware of the complex, expensive and repetitive nature of police oversight investigations. The OPP Association is supportive of oversight agencies. However, we believe savings realized from a restructuring in these areas could be utilized for the general policing function of the OPP to benefit the citizens of Ontario.

The mandate of this government is to encourage business to relocate in Ontario, creating jobs and stimulating the economy. This is an excellent plan. However, businesses must feel comfortable in the area they are located; tourists in Ontario must feel comfortable when travelling throughout this province. If police funding is not maintained, there will be a negative effect on the

OPP's ability to provide a safe and effective service to the citizens of Ontario.

As we prepared this presentation, I reviewed a letter dated May 4, 1995, written by Mike Harris to me and no doubt to several other association presidents. The letter states: "Every person in Ontario is entitled to the security of their person, property and family. We should be able to feel safe in our homes or anywhere else." The letter goes on to say: "That is why law enforcement is one of the three priority areas identified in the Common Sense Revolution, our comprehensive plan for governing Ontario. As a priority area, funding for law enforcement is guaranteed at current levels." For the record, the word "guaranteed" is typed in upper case letters to emphasize its importance.

The OPP Association asks not only the members of the Harris government but also all of you here, as representatives of your party, to maintain funding at current levels for all areas of law enforcement, especially the OPP. We do not want any of the residents of Ontario, especially the residents of rural Ontario, to be deprived of their right to excellent policing.

Mr Carr: It's a pleasure to see you again. I'm familiar, being parliamentary assistant to the Solicitor General, with some of the restructuring that has already taken place, but maybe you could expand on it a little. What you seem to be saying is that you have, as a result of past changes, already done a lot of the restructuring that is happening in other areas and that you've reached the point where you can't do any more. Could you elaborate on the restructuring that has taken place, just outline for members of the committee the tough decisions that have already had to be made with regard to restructuring.

Mr Rick Cazabon: Probably the best example I can give that is probably familiar to most people is the detachment structure out in the field. First of all, the districts were reduced to six regions from 16 districts, and within those districts and now regions, many detachments, mostly two to three detachments, have had their administrative centres amalgamated, therefore eliminating at least two admin centres and providing the administrative function from one location, at the same time bringing together commonalities between those detachments to provide the service on an effective level in that location. That seems to be the most visible change in that regard.

Certainly within headquarters there has been amalgamation of several areas with similar operations. For example, in the investigative field they've brought in the various areas under the command of one bureau, rather than, as in the past, maybe two or three or four bureaus, as the case may be.

Mr Carr: As you know, the minister's announced that they will be taking a look at the whole issue of policing. Do you have any preliminary thoughts? I know there'll probably be some further meetings as we go, but as we take a look at the changes, do you have any other suggestions for the government as we move forward into the next year about the changes you'd like to see in the whole area of policing in the province?

Mr Adkin: The most important thing is just to examine the police function and become efficient for the citizens. That's the important thing. We get back to the

public safety aspect. There are areas of service being duplicated by all police agencies, and I think it's important to get beyond that, to look at it and say, "Does every agency need to provide a specific service?" It gets back to getting the bang for the dollar. The other thing that's a concern to us as well is some of the budget draws. For instance, we mention in here oversight court, those types of things. Back in the days when there were all kinds of tax dollars, you could afford these types of luxuries and they were there, but now your government and the entire Legislature are facing some incredible questions and some incredible decisions, and I think we have to take all those things into account. When times are affluent, you can have those luxuries. When they're not, get the money out of those areas and get them back into providing policing for the residents of Ontario, because that's what the people of Ontario expect.

Ms Castrilli: Thank you both for appearing here today on a very serious subject which we're all very worried about. Prior to being elected to the Legislature, I used to have the luxury of time, and I used to spend part of that time in rural Ontario where I and my fellow residents enjoy the benefits of the OPP services, since we don't have a police force of our own. I can attest to the work you do firsthand. I want to be very clear on what you've said here, particularly with respect to rural Ontario. It's your position that further cutbacks would seriously jeopardize the services you could provide to those rural communities. Is that right?

Mr Adkin: That's correct.

Ms Castrilli: That's what you're saying. I read what the Premier wrote to you, and it sounded to me very much like the Charter of Rights and Freedoms and its guarantees of life and security of persons, which you are committed to upholding. But I look at page 8 of the Common Sense Revolution, which states, "Funding for law enforcement and justice will be guaranteed," and the reason is that "the people of Ontario are rightly concerned about community safety in our province, particularly increased incidence of violent crime." What did you think that meant before the election?

Mr Adkin: Exactly what it said. We all looked at it and we were all analysing it and thinking that law enforcement would be guaranteed and the funding for law enforcement would be guaranteed, and that's what we were counting on.

1700

Ms Castrilli: But the situation is now different?

Mr Adkin: It would appear that it's moving to that direction, yes. We've seen it with funding cuts to the municipalities, without any type of envelope funding or directed funding. Our municipal counterparts and also ourselves were very concerned about where these budgets are going and what's going to be happening. We're concerned as well about providing protection to the public.

Ms Castrilli: So are we all.

Mr Kwinter: Can you tell me what proportion of your budget is used for uniformed personnel?

Mr Cazabon: In terms of salary and benefits or equipment or—

Mr Kwinter: I guess equipment relates to the number of people you have; if you have fewer people you'd have fewer—just what is your personnel allotment of the budget, on a percentage basis?

Mr Cazabon: On a percentage basis, probably 80% of the budget is to salary and benefits. The remainder would of course fund the equipment used and the offices and so forth.

Mr Kwinter: So it's fair to say that any cuts would really have to relate to cuts in personnel—at this stage, given the fact that you've already restructured?

Mr Cazabon: That's correct, sir.

Mr Kwinter: It's interesting. I was looking at the figures in 1984, 12 years ago, and was uniformed OPP personnel was 4,266, and according to your figure it's now 4,627. The personnel has grown by 361 over those 12 years, and I'm sure the population and the area of service has grown in far greater proportion than the 361 growth in the complement. Would that be a fair statement?

Mr Adkin: That's correct, yes.

Mr Kwinter: So any cutback in personnel is going to severely impact on the delivery of service. It's not going to be found in administration. You've already gone that route.

Mr Cazabon: Yes, sir, you're quite correct. The evidence is that police officers today, within our force, are responding to calls for service and really don't have an opportunity to do any proactive policing; it's all reactive, from one call to another to another, and it continues. In the statement we've made, the OPP is based on a 92% response model, which means certain procedures are put in place so the officers respond to 92% of calls within a certain amount of time. That can vary, depending on where you live and your access to policing services. The pressures are there. They're already working to that level of reactive policing rather than proactive policing. We'd certainly at least like to keep it at the reactive level, if not improve on that down the road.

The Chair: Thank you—

Mr Kwinter: Mr Chair, I have to get this in. You've done yourself a disservice. When you list your responsibilities, you've neglected to talk about the services you provide to this precinct, which are very important, considering what we've been going through in the last little while. I want to thank you for that.

The Chair: I'm glad you got that in.

Mr Silipo: Thank you very much for the presentation. One of the things that is going to be really revealing to watch in the next little while on this whole area is to see how the government deals with its commitment to you and to other police associations that it would not cut funding for law enforcement. One of the lines of argument we've heard, and I'm sure you've heard, with respect to municipal policing is that the government doesn't make that decision, that it's really the municipalities at the end of the day who determine the budget. I would argue strongly with that, because as you pointed out, if they're cutting funds to municipalities they really are putting the pressure on them to, among other things, look at cutting police budgets. But on the provincial level

there really will be no escaping it. It will be clear. They will either hold their promise or they won't.

What I worry a little about is whether the kind of rumours we've been hearing recently about potential cuts—either they will show that the government is not going to keep its promise, or I fear that maybe what they're doing is trying to position for some other changes. You talked in the brief about a number of the police oversight functions. I don't think it's a secret that the government of the day isn't particularly that enamoured with a number of those police oversight functions, and I wonder if this isn't just a setup to get people focused on that issue. You've made some points in here about some concerns you have and some ways in which you think that process could be improved, but even if some of those things were done, are we talking about finding big dollars there?

Mr Adkin: I guess that's an issue you have to look at each budget, but there are other ramifications there—the types of complaints they investigate, how long they investigate them, the support services they require—and I think when you get in there, there are significant savings. It's like so many things. You have a pendulum, and the pendulum swings to one side, and there's a time when you have to say: "It's been over there. Now we have to bring it back on line." In this day and age, with dollars so tight, any saving is important, and from that I think there would be significant savings.

Mr Silipo: I'm not arguing with the need to look at those; let me be clear on that. What I'm sort of warning is that maybe what is going on here is not so much an issue about cuts in OPP budgets. I hope that's not what's going to happen, and I know you hope that won't happen either. But I worry that what the government is doing is playing a bit of a game here and trying to do a setup towards fulfilling another part of its agenda. I just say that. I may be wrong, and time will tell. I certainly hope, as you do, that the government, whatever else it does, maintains its commitment to you and to the people of the province to continue funding the OPP at its current level. You said that's clearly your understanding, and I think that's everyone's understanding, from the election. We'll see what happens.

The Chair: Thank you, gentlemen, very much for coming in and making this presentation this evening. We appreciate the OPP's presence again in this building.

That brings to a conclusion our—

Mr Kwinter: On a point of order, Mr Chairman, if I could beg the indulgence of this committee. Since we have been hearing presentations, we've been getting some conflicting versions of what happened in New Zealand. I personally have no idea and have an interest in knowing which side is the right one. We had a witness today say that the figures given by an association were wrong and his were right. Could we ask the Legislative research person to look into the figures so we know what they are, so that when they're used as a reference, as they've been done by several witnesses, we at least have an impartial view of which figures are the right ones.

Mrs Marland: Have you seen the film that was made by 60 Minutes or The 5th Estate or somebody on the New Zealand example? You might like to see that.

Mr Kwinter: I would like some hard copy. One person says their unemployment went to 16%; another says it's at 4%. I'd just like to have something impartial that says, "This is what it is." It isn't interpretive, the numbers are there, and at least we can put these contradictions to rest and know what they are. People keep referring to it, and it's important that we at least have a benchmark as to what are the numbers, whatever they are. I'm not trying to in any way skewer anything. I just want to know what the numbers are so at least we can have a reference point.

Mrs Marland: That should be available at the library.

Mr Silipo: I would certainly support that request. I'm not sure we will agree on what the numbers are, but if Ms Drummond or anybody else can get us some dispassionate information, that would be useful for the committee. As Mr Kwinter said, we can argue about various theories and approaches, but if we have hard data, that certainly would be helpful in a discussion.

Mr Ford: I agree with Mr Kwinter. I was sitting here today and last week listening to all these figures being banded around, and I just wrote down a little comment: "Lies, lies, and more lies." I just got so sick of it I couldn't stand it. I would like to second the motion by Mr Kwinter that we carry on with that investigation.

The Chair: Is the quote not "Facts, data and lies," that they're all the same thing?

Mr Ford: You get tired of sitting here listening to this. If somebody comes in with one set of figures and then they come in with an opposite set of figures, you're sitting there in sort of a tizzy. You have to go back to your office and try to check out some of these things, and it's water over the bridge, or under the bridge—whatever you want to call it; over the falls—and you're sitting there and you can't get back.

Ms Castrilli: I would most assuredly concur with Mr Kwinter on this issue as well as many others. The only thing I would add is that we should be clear on what we want to have. I don't think we need to have an enormous amount of information, but there are certainly about a dozen or so indicators, the kind of statistics we've had, that we need some clarification on. If I can be of any assistance to the researcher, we've done some research already which we would be happy to provide, or she can go on her own and gather more.

The Chair: Everybody seems to be in agreement. Thank you.

I would make two further announcements. You have had distributed a schedule for the second week of auto insurance hearings, the travelling week. If there are any personal needs you might have concerning those travel arrangements, would you please let the clerk know as soon as possible so we can try to accommodate them.

Second, a report was distributed by Alison Drummond, our researcher, regarding the writing of the report. A number of different formats might be used. I suggest we have a discussion on that after your review of that paper. We could have that discussion Thursday, just before we recess for lunch, if that's acceptable to the committee.

There being no further business before the committee, we stand adjourned until tomorrow morning at 9:30.

The committee adjourned at 1711.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Bassett, Isabel (St Andrew-St Patrick PC) for Mr Arnott

Carr, Gary (Oakville South / -Sud PC) for Mr Sampson

Crozier, Bruce (Essex South / - Sud L) for Mr Phillips

Marland, Margaret (Mississauga South / -Sud PC) for Mr Martiniuk

Clerk / Greffier: Carrozza, Franco

Staff / Personnel: Drummond, Alison, research officer, Legislative Research Service

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Mercredi 14 février 1996

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Ted Chudleigh
Clerk: Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRS

Wednesday 14 February 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES
ET DES AFFAIRES ÉCONOMIQUES

Mercredi 14 février 1996

The committee met at 0930 in room 151.

PRE-BUDGET CONSULTATIONS

ONTARIO MEDICAL ASSOCIATION

The Chair (Mr Ted Chudleigh): I'd like to wish everyone a very pleasant Valentine's Day. I hope everyone has had an opportunity to buy their gifts, or they can go out at noon today, like myself, and buy some gifts.

We have before us today the Ontario Medical Association. We have half an hour together, gentlemen, which you can use for a presentation, or you can use any part for questions as well. Identify yourself, please, for Hansard. Welcome to the committee.

Dr William Orován: My name is William Orován. I'm a urologist from Hamilton. With me is Mr Boris Kralj from the department of economics at the Ontario Medical Association.

On behalf of the Ontario Medical Association, I wish to thank the standing committee on finance and economic affairs for permitting us to make this presentation today. The physicians of Ontario and their representative association, the Ontario Medical Association, understand the very real fiscal difficulties in which the province of Ontario finds itself in 1996. The physicians of Ontario also understand that expenditures by the Ministry of Health constitute over one third of total provincial government spending.

The Ontario health insurance plan, OHIP, provided by the government of Ontario and indeed other government sponsored health insurance plans in other jurisdictions across Canada, represent the most popular entitlement programs to the citizens of Canada and Ontario. These programs, in many cases the envy of the world and certainly far superior to those offered in the United States, are nevertheless costly and there's a real question regarding sustainability of this program in Ontario, given the tight financial constraints, a growing and aging population, and increasing costs related to utilization of advanced medical technologies.

While the physicians of Ontario understand the necessity of fiscal responsibility and efficiency, they are very concerned that decisions made with respect to funding of our health care system should be based on factual evidence and not individual opinion, or made with the interests of patients and the provision of quality services, and not motivated simply on the basis of cost reduction and, as well, recognize the significant contribution and participation of the medical doctors of Ontario.

I would like to review some of the basic facts on the level of medical service costs and on factors driving their growth. Government spending on physician services totals

approximately \$3.944 billion in Ontario annually. This expenditure constitutes about 9% of total provincial program spending and a stable 22% of the total health care budget. This spending provides about 11 million Ontario residents with all the medical services they need and demand.

The population of Ontario receives its primary care physician services, that is, services provided by general practitioners or family doctors, at a cost to the government of 41 cents per day per person. Similarly, the residents of the province receive all of their physician services at a cost to the treasury of 98 cents per day per person. On a comparable basis, the treasury spends more than twice as much on social services, more than twice as much on education and training, more than twice as much on interest payments on our debt.

Under the provisions of the social contract, total spending of medical services has been capped for the 1993-94 to 1995-96 fiscal period. Currently the fee-for-service cap stands at \$3.8 billion. Any payments to doctors in excess of the cap are recovered on a dollar-for-dollar basis through clawbacks.

I draw your attention to the penultimate page, figure 1, which demonstrates how, since 1993-94, fee-for-service payments to physicians have been capped—1994-95 and 1995-96—at \$3.804 billion. During that time you can see how the population of Ontario has increased from 10.5 million to 11.3 million and, in addition, how actual billings have increased mirroring that population increase, but are clawed back on a dollar-per-dollar basis from the physicians of Ontario. In effect, doctors have been forced to provide these services to their patients and the government for free.

The burden of rising medical service utilization, which is due mostly to an expanding and aging population, government-initiated program expansions in dialysis, cardiac surgery, changes in epidemiological trends, shifts in the burden of care into the community as hospitals downsize, and a more informed patient population with higher expectations, when combined with the hard cap on total spending, has been shifted solely on to the backs of physicians. It is unreasonable and unacceptable, I would submit, to hold doctors entirely accountable for utilization growth since the vast majority of these contributing factors are beyond the direct control of individual physicians.

In recent statements during Bill 26 hearings, the Health minister stated that over the past few years the increases in utilization have been uncontrolled. The medical profession believes that utilization growth is far from uncontrolled, especially given government actions in certain areas, namely, new program introductions and expan-

sions, and inaction in some other areas. Government-initiated expansions of cardiac surgery, dialysis, mental health, immunization and cancer treatment programs, while laudable, have not incorporated funding provisions for the additional physician services that are concurrently required. We know, for instance, for one additional cardiac operation, the additional fee-for-service payments to ancillary physicians, \$10,000 per patient. None of this was reflected in the additional program funding for cardiac surgery.

The government has failed to introduce new photo-ID cards, failed to establish effective public education campaigns on responsible use of the health care system, and has failed to remove marginal services from OHIP coverage, to name a few.

During 1980-81 to 1990-91 decade, overall utilization of medical services increased at an annual rate of 5.5%. Since the implementation of agreements, binding agreements between the province's doctors and the government in 1991, there's been a marked reduction in utilization growth. Since fiscal 1990-91, utilization has risen at an annual rate of 2.5%, less than half the previous decade.

Utilization per capita, that is, utilization growth after adjusting for growth in the Ontario population, increased at an annual rate of 4.1% during 1980-81 to 1990-91. However, since 1990-91, utilization per capita has risen at an annual rate of 1.1%. You can see that depicted in the overhead.

In addition to an increasing population, Ontario's residents are also growing older. The population of elderly Ontario residents, those individuals who are 65 years of age and older, is growing at a much faster rate than the overall population. Since 1981, the overall population has been growing at an annual rate of 1.8%, while the elderly population has been growing at an annual rate nearly double that, 3.2%.

The average cost of providing medical service to older patients is significantly higher than for younger patients. For example, the average per-patient physician services cost for those in the eighth decade of life, 70 to 79, is about \$770 per year. The comparable physician services cost for patients in the fourth decade of life, 30 to 39, are much less, half, \$390. The Ontario Medical Association estimates that population aging adds, all else remaining the same, almost 0.5% per year to utilization growth.

To summarize, over the past four fiscal years, medical services utilization has increased at an annual rate of 2.5%. After one accounts for growth in the population, this rate declines to about 1.1%. Further, after adjusting for the effect of population aging, this figure falls further to only about 0.6% per year. Most of the remaining growth can be attributed to changes in epidemiological trends, for example, the prevalence of the HIV virus, technological advances in medicine, cost shifting, hospital downsizing and more informed patients with higher expectations.

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The impact of government budgetary constraints on the medical profession has been significant. Since the 1987-88 fiscal year, average inflation-adjusted earnings, or real earnings, of Ontario doctors have decreased by 10%. During this same period, average real earnings by indus-

trial workers, measured by the average industrial weekly wage in Ontario, increased by almost 5%. After adjusting for increases in the cost of living, average earnings of Ontario physicians are at about the same level as they were in 1985.

Statistics Canada, for the period 1987 to 1992, the most recently available figures, indicates the average medical practice overhead expenses for Ontario physicians have increased in every year. Currently, it is estimated that average overhead expenses for all physicians amount to between 40% to 45% of their gross OHIP billings, depending on the kind of practice. The overhead expense ratio for general practice, for instance, or family doctors, is estimated to be even higher, 45% to 50%.

Overhead expenses include such items as office space rental, employee salaries and benefits, medical equipment and supplies, and malpractice insurance costs. Additionally, a physician must purchase his own retirement benefits package, that is, life insurance, long-term disability, dental, extended care, retirement plan.

Rising practice overheads coupled with diminishing physician payments are having spillover effects on employment levels in general in Ontario. One fact that is almost always ignored is that Ontario physicians directly employ approximately 50,000 people in the province. Progressively increasing numbers of doctors will have to cut back on staff employment to accommodate the new fiscal constraints.

The average annual gross OHIP billings by Ontario family physicians is about \$150,000. That's gross. After adjusting for practice overhead expenses, that leaves a net before taxes of \$85,000. This is equivalent to the average salary of mid-level managers in private sector organizations. It is not excessive.

The reality regarding physician incomes is much different than what is often portrayed by government and the media.

Finally, it should not be forgotten that since the imposition of a hard cap on total physician spending in 1993-94, Ontario's physicians have provided about \$800 million in free services—the disparity on the first graph—to their patients and to the government. This translates into an average of \$40,000 worth of free services, or sacrifice, per physician.

Conditions consisting of the opposing pressures of decreasing resources and rising demand for medical services that have prevailed over the past few years have created a situation of crisis in terms of quality of patient care and physician morale. The previous government's social contract and the current government's Savings and Restructuring Act only serve, unfortunately, to exacerbate this already serious situation.

One manifestation of morale problems is the rising outmigration of physicians from Canada and Ontario. Since 1988 the number of Canadian doctors leaving for the United States and receiving permanent resident status has been on the rise, having increased by a total of 245%, or by 28% per year on average. Data for 1994 indicate that for every four physicians who leave only one returns. This ratio is even higher, eight to one, in gynaecology and anaesthesia specialties.

In 1994, a total of 345 doctors left Ontario to practise abroad: 151 family doctors and 194 specialists. Given that Ontario universities produce just 600 new medical graduates each year, this is the equivalent to losing more than one half of our annual graduates.

A survey of public opinion conducted by the Angus Reid Group on behalf of the Ontario Medical Association indicates that 78% of Ontarians believe that the changes proposed in Bill 26 will have negative impacts on the quality and accessibility of health care services in their communities. In fact, 50% of the public believe the impacts will be very negative.

Additionally, almost 80% of Ontarians feel that these negative consequences on the health care system are too large a price to pay for reducing the government's deficit. Pain and suffering, illness and disability, do not recognize the business cycle nor warnings of changes in debt rating, and those who are unfortunate enough to become ill during such periods should not be asked to shoulder this burden as well.

With increasing frequency, Ontario residents are experiencing difficulties in access due to hospital downsizing, lengthening waiting lists and communities losing physicians. In addition, physicians and their patients are finding it more and more difficult accessing new health care technologies. There are emerging quality problems and concerns. Health care systems already suffered very large cutbacks in the last few years. These cutbacks have taken place without effective evaluation of the impact they are having on quality and access to care.

The OMA's concern is that government will curb health care expenditure growth in a way which will compromise quality of care by ad hoc restrictions on supply. This is already apparent from hospital closings and statements of physician oversupply. Pursuing such a strategy will necessarily restrict access to needed care. Without going into the details, I can say that the current government physician supply targets are very dated and, we feel, based on flawed methodology.

Government should refrain from spending its limited health care dollars on programs and other initiatives that have not been solidly demonstrated to be cost-effective. The process of reforming the provision of health care in Ontario must be done on the basis of objective and clear evidence and thoughtful planning which protect patient access to health care and the quality of health care.

The use of expenditure caps to meet government fiscal targets cannot be sustained indefinitely. The diversity in that graph I showed you in the first case cannot continue indefinitely. It's unconscionable that government abrogate its responsibility to the public by relying upon reductions in payment for services consumed in the health care system. Health care delivery in Ontario cannot be determined more by budgetary priorities than the actual health care needs of the population.

Recognizing the economic pressures faced by the government of Ontario, the medical profession is not confident that the province can maintain the level and quality of medical care required to meet current patient needs.

The Chair: Thank you very much. We'll move to question period. What I'm going to do, with your appro-

val, will be to divide the question period into three, and we can each have another question if the third party doesn't appear before the appropriate time. Is that acceptable? Thank you. We'll start with the opposition.

Mr Monte Kwinter (Wilson Heights): Thank you very much for your presentation. What is your prognosis as to where the medical profession is going to be in the next three or four years if the government's policies are really carried out?

Dr Orovan: I'm very worried. I think the morale of the medical profession in Ontario is at an all-time low. I've been in practice now for 17 years. We have weathered difficulties in the past. We have not always had sanguine relations with government, but I have not seen as difficult a situation for the profession as I see now. The demand for medical care is significant. The population is growing and aging. Physicians are being caught in a very difficult situation of declining resources and increasing demand. I anticipate, because of the situation in the United States, where it's particularly advantageous at the moment, particularly for primary care physicians, to emigrate, that we will lose more and more of our better primary care physicians. Medical school applications are down significantly and I expect that to continue, as medical practice is seen to be less and less attractive for new graduates. I am more than a little pessimistic, sir.

Mr Kwinter: I'm sure, as a medical practitioner, you followed the election campaign with some interest and what each of the parties was saying about their commitment to health care. The present government said it was going to maintain funding for health care. They are now saying that what they really meant was that the \$17.4 billion that was allocated for health care would be the same amount in the final year of their mandate. Is that your interpretation of what you thought they were saying?

Dr Orovan: Certainly in the interim we are seeing things that differ from that: \$1.3 billion is being taken out of the hospital portion, for instance. Whether that will be reinvested, I do not know. We certainly have seen very significant pressures brought to bear already on hospitals in Ontario. We are already, in Ontario, at the lowest bed-day-per-thousand ratio of any jurisdiction in Canada, yet we are being asked in the hospital sector to take out a further 18% over three years. Where or if that will be invested, I do not know, but in the interim we will certainly see significant problems in the hospital sector.

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Ms Annamarie Castrilli (Downsview): I wonder if I could continue with that just a moment. The government's position as has just been outlined by my colleague is that the money will be reinvested later on, so that at the end it will be the same amount for health care as it was at the beginning of their mandate. In the interim what happens? Suppose they reinvest it, as they say they will. Will the situation be improved, do you think?

Dr Orovan: At the moment, as more and more dollars are taken out—these are not the first cuts to the hospital sector, but they are by far the most significant. To this point, at least, there are no community services available to pick up the slack. Hospitalization stays are going progressively down. In the last two years in Ontario, hospital stays were reduced by a total of one day, from

8.6 to 7.6. That's a very substantial reduction. Patients are being discharged into the community much sooner, and increasing contraction of the hospital budget will result in even more of that. At the moment, there are no parallel increases in community services to take that up, and so far as I'm aware there have been no announcements to suggest increased funding for these groups. Certainly taking it out of one sector and not reinvesting it in the short term is going to have significant impact.

Ms Castrilli: If services are cut back during the next three or four years, how easy would it be to reinstate them at the end of the period?

Dr Orovan: I suppose if one was going to give back money to hospitals, the bricks and mortar would remain. The trained people would not. That would be a problem. If one was talking about reinvesting it in other programs, there's certainly significant run-up time to get those programs operational. You need to acquire people, train people, and these are not things that can be done overnight. There are substantial lead times.

Mr Jim Brown (Scarborough West): I notice that on page 2 you recognize the problem with money, because you say we spend twice as much on interest payments on our debt as we do giving it to physicians. That goes a long way. That says a lot. On page 3 and on page 7 you refer to "removing marginal services" and you talk about "cost-effective." Could you give me some examples of what you mean, where physicians can save money and where we can help?

Dr Orovan: In talking about marginal services, the schedule of benefits of insured services in Ontario is some 1,800 items. We would like to see an effort made on the part of government, in cooperation with the medical association, to define core services. What are the medically necessary core services that ought to be covered by a publicly funded insurance program, and what ought not? There are several models by which that could be accomplished. People talk about the Oregon model, for instance. There are many methodologies for this. I think we're looking at a time of constrained resources, looking into the future. We need to back up a little and see what it is the government can afford to fund in a publicly funded system and what individuals should be permitted to acquire private insurance on their own to buy. That's a substantial area in which we might have some common interest.

In the area of efficiencies, these are more difficult. Already Ontario doctors are operating in a very efficient manner. In terms of health care expenditures across the country, we are fifth or sixth among the provinces. We have a large and very disparate population, we have a highly urbanized population, we have an aging population. So I think we've done well up to now to keep the rate of growth as we have, at 0.6%. Within the system itself, I think we've wrung out, from the hospital sector, from the medical care sector, virtually all there is to wring out.

Mr Jim Brown: How many doctors share in that \$3.8 billion?

Dr Orovan: There are 23,000 physicians in Ontario.

Mr Jim Brown: About what does that work out to each? I'll do it.

Dr Orovan: Sorry, I don't have my calculator.

Ms Isabel Bassett (St Andrew-St Patrick): I'm from a medical family, so I feel right at home. Things haven't changed in 40 years, in a way. Maybe they're more intense now. Anyway, thanks for your presentation. I was going to pick up on the cost-effective thing Jim was talking about, but before that, I just want to make sure that the \$17.4-billion envelope the government has promised—they do intend to fulfil that. It's just that when you close something down or restructure, you can't immediately rush out and put the money somewhere else. As you yourself say in your presentation, you do want us to think carefully on the direction we're going.

The Minister of Finance sees this committee as a place to get new ideas. I was interested in your talking about the delisting on page 7. Are there other areas you could spell out, or is it worth sitting down, which we should be doing and we are doing. We want to work together with doctors, and we really mean that, because you just have to be in a crisis to know how important doctors are.

Dr Orovan: We think there are some other areas. For instance, we have proposed to government a very comprehensive primary care reform package. At the moment, primary care is delivered in not as systematic a way as we think we could. We may be able to see significant savings if we can agree on the kind of program we want to implement for primary care reform. We think there are some technology issues that need to be addressed; we think there are some potentials for savings there. Utilization is not solely a physician-based phenomenon. There's a demand side to it.

Ms Bassett: Following up on that, the smart card that the minister is working on—it's one of your suggestions of course—do you think that will reduce the use and—

Dr Orovan: Yes, I think that will eliminate some user fraud. User fraud has been an issue for some years now. Trying to get a handle on how much it really is has been very elusive, but the smart card will certainly go a long way towards doing that. As I said, there's a demand side to the equation. We need educational programs for proper utilization of the medical services system and we need to make patients responsible for their use.

One of the provisions in our particular model for primary care reform involves a process called patient rostering, where patients would be required to sign on with an individual physician and receive all their primary care from him or her for a specified period. We think that would eliminate frivolous visits to the emergency department, frivolous visits to limited-care facilities such as walk-in clinics. We hope the government will embrace ideas of that nature.

The Chair: Mr Silipo has informed us that he will be late, and he's walking into the room as we speak. Mr Silipo, your turn for questions has arrived.

Mr Tony Silipo (Dovercourt): I'll pass, Mr Chair. Sorry. I apologize for not being able to be here earlier, and Ms Lankin is not well today.

Mr Bruce Crozier (Essex South): Good morning, gentlemen. It was just mentioned about wanting to sit down and discuss the problems in the delivery of medical care in the province with the doctors. Can you give us some sense of what the dialogue has been in view of the

fact that there have been some significant changes in the funding certainly of hospitals and health care in the province since last June? Can you give me some sense of where we are in the dialogue with doctors? Are you being listened to?

Dr Orován: We have had the opportunity to meet on several occasions with the minister or his designated officials. Discussions have not always been smooth. There are some very difficult issues to address. We, speaking as a profession and as the professional association, have some issues which we feel need to be addressed if we are going to be able to work cooperatively with government and with the profession. To this point we have not been able to work out those details in a method that's satisfactory to the profession or to the association. We hope that will happen. We certainly very much want a constructive dialogue.

Mr Crozier: Your answer was very candid. At least you're meeting, and you would hope that somewhere along the way these rough spots would be ironed out and you will in fact be listened to.

Dr Orován: That is certainly our hope.

Mr Douglas B. Ford (Etobicoke-Humber): Gentlemen, welcome. I've talked to approximately 20-odd doctors in my constituency office and down here at the park and there was a great deal of concern about doctors being, as they said, forced to move into the northern areas, towns and cities. What is your idea on that?

Dr Orován: The minister has stated repeatedly both in the House and in the public press that he is concerned about what he perceives as maldistribution of physicians in Ontario. There are underserved areas in the northern part of the province that require servicing. The total number of doctors required to meet the need, as outlined by the ministry, is about 180 doctors, that out of a population of 23,000. We are sympathetic to the need to relocate or to locate doctors in those areas. It's our overwhelming preference that this be done on the basis of incentives rather than forced relocation or forced location based on ministerial caveat.

Bill 26, as I'm sure you're aware, gives the minister the power to prohibit doctors from moving to areas in the province which are designated as overserved and provides mechanisms for determining physician eligibility for the privilege of billing OHIP, which would give the minister even wider powers over locating doctors. We feel these powers are excessive. The minister has stated that he is willing not to invoke them for the moment, to see how some of the other programs that we might be able to agree upon would affect the problem. We hope he does that.

The Chair: I'd like to thank the Ontario Medical Association and Dr Orován for their presentation this morning.

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ONTARIO NATURAL GAS ASSOCIATION

The Chair: We now welcome the Ontario Natural Gas Association, Mr Pinnington, Mr Jones and Ms Woodruff.

Mr Paul Pinnington: Thank you, Mr Chairman. Good morning. I'm president of the Ontario Natural Gas Association. Accompanying me is Janet Woodruff, who

chairs the association's finance committee. Ms Woodruff is also a controller of Centra Gas Ontario and Union Gas Ltd. Bernard Jones is president of Blue Apple Consulting and a resource person for the association.

We are pleased to be with you today and thank you for including the association in these important deliberations. On behalf of the members of the association, we have prepared a discussion draft entitled Positioning Ontario to Meet the Technology and Economic Challenge, which has been distributed to the members of this committee.

Mr Jones has prepared an overview of the paper which he will take us through, and a copy of that information has been provided to you. With your concurrence, Mr Chair, I would propose that my colleagues and I respond to any questions you may have at the end of the presentation. Mr Jones's discussion piece has been provided to Hansard. With your permission, we'll proceed.

Mr Bernard Jones: Good morning. The presentation we make is in three parts: first the economy, then fiscal matters, then, finally, energy and economic productivity.

Looking first at the economy, we believe the economic outlook is uncertain, that a slowdown in economic performance is quite possible this year, and we have concluded that confidence needs a boost, particularly consumer confidence.

The year 1995 was not a strong year for the economy. In fact, real growth was negative in the first half. Retail sales and housing, which are key components of domestic demand, remain weak. Hopefully, lower interest rates that have been announced recently will help. Nevertheless, the recovery from 1991, such as it has been to date, has relied significantly on exports. However, the US economy is experiencing slower growth, and forecasters have revised downward the Canadian prospects for 1996, and this affects Ontario.

We believe, as I say, that confidence needs a boost, and consumer confidence particularly needs to be lifted. You may be aware that confidence levels are much lower than they were in the 1985-88 period, that real disposable income per capita is lower than it was in 1989, and that Ontarians are concerned about job insecurity and have faced very significant tax increases over recent years.

Turning to our recommendations, as a kind of a forward there, we note that we support the government's commitment to reducing the tax burden and creating a positive climate for business in the province.

We believe the government's planned personal income tax reduction is timely and necessary. It will help restore confidence, boost spending and business investment and stimulate job creation. We recommend that the tax reduction should apply broadly and equitably, and that it should begin at a modest level on July 1, 1996, and be increased subsequently on January 1, 1997.

Moreover, to reduce bracket creep in the personal income tax, our members are suggesting that in the current environment, the indexing provisions of the income tax be updated so that inflation gains in excess of 1.5% would be indexed. We recommend that the Minister of Finance of Ontario consult with his federal and provincial colleagues to take this step to protect the real after-tax incomes of Canadians. For example, for people earning in excess of \$35,000 a year, they're paying a

little over \$700 a year more now than they would be if the indexing had provided full protection.

We turn now to fiscal matters. We point out in our presentation that we believe that reduced budget deficits and debt are essential and the fiscal gains achieved must be made permanent. The government's projections in its November document confirmed our worst fears. We have been before this committee in past years and made projections ourselves indicating that our fiscal situation was rapidly going out of control. The government's projections confirm this.

We are pleased to see the progress being made in dealing with deficits and the debt, and we believe we must begin to plan now to consolidate those gains. In our paper, we recommend a consultative process to begin with Ontarians to try to address how we can take maximum advantage of an improved fiscal situation and the implied budget surpluses that will result.

We deal with some of these aspects in our recommendations, and I'll run through them quickly for you. ONGA urges the members of the standing committee to support the government in preparing to take maximum economic and social advantage of the promised new era in Ontario finances.

ONGA members believe that the implied budget surpluses, which could be substantial, should be dedicated, in order of priority, to public debt amortization, tax reductions and expenditure increases on essential economic and social infrastructure. We recommend that serious thought be given to putting in place legislative safeguards that would reduce the risk that a future government might put Ontario back on an aggressive public spending path.

We recommend that Ontario push for policy linkage to be established at the national level between fiscal gains and pension reform. Increases in CPP contributions, and benefit reductions if any, will be more palatable if the income tax burden is scaled back over time.

ONGA members support steps to harmonize federal and provincial consumption taxes. However, we believe there must be no resulting increase in the overall tax burden, that business inputs should be free of tax and that the tax burden on necessities such as food and residential energy should not be increased from current levels.

While respecting local government revenue needs and the principle of user-pay, ONGA members recommend against greater flexibility in local taxation and proliferation of fees and charges that could be put in place without prior consultation with affected parties, adequate documentation and costing of services and review of alternative measures.

That concludes the fiscal commentary we have. Now, turning to energy and economic productivity, as we show in our slide, the utilities, that is, the LDCs, local distribution companies, in Ontario plan to invest \$3 billion in capital spending over the next five years in this province. This is a very substantial amount. The utilities employ about 8,400 Ontarians and pay wages and salaries and taxes of \$396 million and \$313 million respectively.

We note that there is scope for productivity gains in the economy, and we've identified three areas in our document: one is natural gas research, development and

demonstration; another is natural gas vehicles; and finally, competition in the Ontario electricity system.

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The gas industry has been a source of economic stability for this province during recent difficulties. It has delivered lower gas prices and cost savings to industry and to consumers at a time when the economy was relatively weak. But more can be done.

Turning to our recommendations, we believe that to help improve the competitiveness of the economy, the Ontario electricity system must be opened to competition as soon as possible. Given the trend elsewhere, competition in electricity is inevitable in Ontario. We have the choice of managing change to our advantage or facing change that we have not adequately prepared for that could be to our competitive disadvantage. We encourage the Minister of Finance, his cabinet colleagues and the standing committee to support the early transition to a competitive electricity system. The government has a major role to play in establishing the policy and legislative framework, including fundamental changes to the Power Corporation Act.

In this regard, we as an association have made a submission to the Macdonald commission, and our perspective at this time is that there is a consensus among stakeholders that change is needed. At issue is the scope and pace of change that should occur. Our position is that privatization, which concerns a lot of people, is really a secondary issue; that progress can start on change and reform without being concerned about privatization. The natural gas experience with deregulation has been quite positive, and we've laid this information out. We have copies of our presentation to the Macdonald commission which we can leave with you, Mr Chairman, if you would like those documents.

Finally, we believe that further development of the natural gas vehicle industry in Ontario would be helpful, and its contribution to economic competitiveness, technology leadership, exports and sustainable growth hinges on the continued support of the government of Ontario and the federal government. Ontario is emerging as a world leader in NGV technologies, and we've provided some information on this subject in our document. That concludes our presentation.

Mr Silipo: Could you please expand a little more on your point that the tax reduction should apply broadly and equitably?

Mr Jones: The tax reduction, it seems to us, is a pretty significant part of the economic change and reform that's occurring in the province. Over the past decade, all Ontarians have faced increases in taxes of various kinds. As you know, there have been maybe 60 or more different kinds of tax increases applied. It's our feeling that to get maximum benefit out of the tax cut and to boost spending and at the same time to have everybody feeling that they are sharing in the improved economic situation, everybody should benefit, but maybe you could cap the benefits, the flow, through the tax reduction so that those who are better-off in terms of income would receive less as a percentage.

Mr Silipo: So you wouldn't do a straight 30% cut across. You're saying modify that somehow so there is more benefit going to middle-income Ontarians.

Mr Jones: Yes, I think you can make an economic case that that should be done.

Mr Silipo: In your presentations around the economic assumptions, you talk about implied budget surpluses. Again I'd like you to explain that a little. What I take from what you're saying is that you believe that if the government proceeds in its course of action the debt will be increased—you acknowledge that—but you're assuming that once the deficit is reduced to zero, if the course of action continues there ought to be surpluses the government has? I don't want to put words in your mouth; I just want to be clear on what your position is.

Mr Jones: Yes. If you change the fiscal plan and you establish a trajectory where you're moving from a situation of chronic surpluses to reducing those down to zero, then if you leave your expenditure and revenue paths unchanged, in fact you produce significant surpluses. So a decision has to be made about changes to the revenue and expenditure paths so that you deal with that.

Mr Silipo: But that would assume, for example, that we could continue to maintain or should continue to maintain program spending for various areas, for example like education, at whatever the levels would be then, regardless of how much the needs would grow. Again, if you take education, enrolment in schools tends to go up year after year. So how would one reflect that, if you just assume that you could just flat-line spending forever into the future?

Mr Jones: It's a very important question and I think that's one of the reasons we're recommending some consultation here, some consultative process, so people have a better understanding about what the different scenarios could look like as you begin to approach a balanced budget, because you can paint different scenarios. What we're saying here is that once you get on this track of moving towards a balanced budget, you are putting yourself in a position where you can generate pretty significant budget surpluses. Probably only part of that will happen. It'll only happen if you decide that you want to reduce the debt, then you need a surplus to reduce the debt. You could end up in a situation where you actually end up with no surplus because you've already decided what you're going to do with it. They're hypothetical at this point.

Mr Silipo: Have you also taken into account in your analysis the economic impact of the various cuts that the government has either started to do or is going to do? Because there clearly are both some job losses as well as, I guess the jargon is, economic drag that comes as a result of whatever amounts of money the governments cuts in spending, because that also is money that is taken out, at least initially, I think we would all agree, of the economy. Have you factored that into your analysis of this?

Mr Jones: No. I think what we've done is simply look at the economy that we see today, which is a troubled economy. There are massive structural changes that you've had many people talk to you about that are occurring in the economy. We're just looking at the economic performance. We're taking the projections as we've seen them from the government and we are deducing from that there is room for a tax reduction, and that's preferable to expenditure increases at this juncture.

Mr Silipo: I'm not sure that any of us are talking about expenditure increases in a global sense, but in—

Mr Jones: It's all relative, isn't it?

Mr Silipo: Yes. If there's time—

The Chair: Thank you very much.

Mr Silipo: There isn't time, okay.

The Chair: We'll move to the government side. We have Mr Spina, Mr Brown and Mr Ford.

Mr Joseph Spina (Brampton North): Mr Jones and company, thank you very much for an interesting presentation. A couple of items that surfaced: In just addressing the point that Mr Silipo brought forward about broadly and equitably, am I correct in assuming that your point is that the middle- and lower-income people get as much of the impact of a tax reduction as possible? Is that sort of what you were driving at?

Mr Jones: Yes.

Mr Spina: So then if we were to implement, along with the tax reduction that is being proposed, the health care levy that would be levied against higher income earners, that would reduce the amount from 30%, so in fact it is not a 30% across the board. It is 30%, but then that is going to be levied back by the health care levy. Would that sort of achieve some of the objective that you had in mind?

Mr Jones: I haven't really thought too much about the health care levy and its relationship to the income tax cut. I think the government has to work with the numbers as best it can, because there will be other changes, I would presume, that would occur at the same time.

Mr Spina: Yes, because the approach is not just to have an income tax reduction. There is a domino effect between removing the employer health tax, reducing the income tax rate and charging the health care levy to the higher-income earners.

One other point: I liked your comment at the end, the recommendation about opening competition to electricity. Am I to understand that with the effects of Bill 26, which gave the municipalities greater authority, more tools, shall we say, to have the flexibility to deliver services on their own, without the provincial government mandating something or other, that this would allow you, as a gas utility, to be able to engage in other utility delivery services like electricity?

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Mr Pinnington: I'm not sure of the intent of Bill 26 in that specific regard. Certainly, the natural gas utilities have indicated their interest in participating on a broader scale in terms of supplying electricity as well as natural gas, and I think it's common knowledge that the gas utilities are already discussing becoming involved in the delivery of water in certain municipalities.

The bottom line is that we're expecting a very different competitive environment which will be, bottom line, of advantage to consumers at large and we think the economics will drive "convergence," the term that's being used, to everyone's advantage. I'm not sure that answers your question, but we see the field wide open.

Ms Janet Woodruff: I was going to add that I think the review of the Ontario Hydro situation will include a review of the relationship between the municipal utilities and Ontario Hydro, so there still needs to be further work

there before there's any clarity in that situation. We are working with the utilities and looking at opportunities, but more towards the future, to consider whether there may be potential opportunities.

Mr Spina: That you can merge delivery services or inspection services, those kinds of things?

Ms Woodruff: That's right, some kind of sharing of services and offsetting costs.

Mr Spina: Very good.

Mr Pinnington: Probably another important aspect of this which is mentioned in the paper is the Power Corporation Act. As you know, as it stands today, there would certainly be some limitations because Hydro and the municipal electric utilities have certain responsibilities under that act, so that act clearly will have to be revised to make way for a number of these changes that we anticipate.

Mr Jim Brown: How many members do you have in your association?

Mr Pinnington: We have about 138 corporate members and the membership at large is about 360. The corporate members include individuals from all areas of the gas industry in the province of Ontario.

Mr Jim Brown: Your suggestion on privatizing electricity, would that mean there'd be 138 suppliers of electricity, generating electricity? Is there going to be one, like Ontario Hydro, or are there going to be many?

Mr Pinnington: For starters, the position that we've taken is restructuring is the first order of business and we think that the question of privatization will fall into place, driven by economics. There are today some 307 municipal electric utilities and the consensus is that there probably could be 30 in the not-too-distant future.

Mr Jim Brown: But they deliver it, they don't generate it? Do they generate it?

Mr Pinnington: Not now. Well, there may be some internal relationships with independent power producers on a municipal basis.

Mr Jim Brown: But in the old days, wherever water fell, there was a generator.

Mr Pinnington: Bottom line is that nobody delivers power without going through the Hydro system today, and that's what has to be changed.

Mr Jim Brown: Yes, but would you change it one for one, or you'd change one supplier to many suppliers?

Mr Pinnington: To many suppliers.

Mr Jim Brown: What would happen with water and sewage? That's another potential, I guess.

Mr Pinnington: That's correct, and again, economics will drive these relationships.

Mr Jim Brown: How much do you save us? Privatization of electricity—any estimate on what it would save?

Mr Pinnington: I don't know that there are any hard and fast numbers.

Mr Jim Brown: It must save money or you guys wouldn't be interested.

Mr Jones: There's quite a debate on whether or not you should privatize the electricity system.

Mr Jim Brown: I know.

Mr Jones: That's something the Macdonald commission is looking at.

The Chair: Perhaps we could leave the discussion to the Macdonald commission. Can we move to the opposition, please.

Mr Kwinter: As always, I welcome the presentation by the Natural Gas Association. I think it's commendable that you go beyond your particular field to talk about the general economic area, and I'm particularly supportive of your natural gas vehicles.

I have a concern and I'd like to just get a clarification, particularly from Mr Jones. In your presentation, when you talk about the economy, you say the outlook for the Ontario economy is positive, and then you go on to say: "Household saving has declined to a low 8% of disposable income, and debt levels are historically high. Personal and business bankruptcies are running at high levels. Buffeted by low income growth expectations, job insecurity and other concerns, consumer confidence, while slowly improving, is fragile. Retail sales remain weak. Moreover, corporate profits measured as a percentage of GDP are on a long-term downward trend." I mean, if that's a description of a positive economy, we have a problem. I'm not being critical. There seems to be a dichotomy there when you say things are positive and then you paint this vision of doom and gloom.

Mr Jones: I think what I was trying to do is to avoid a very negative view. The fact is that if you compare the outlook for 1996 with what we've been through in the past few years, it's not that bad. It's not good, it's not buoyant; it's more positive than negative, but there are negative factors at work. Actually, when you look back in our presentations that we've made, I think we've been pretty accurate in our sense of where the economy was likely to go, but we've tried to avoid as much as possible being negative in our outlook because we don't think that's terribly constructive. I think what we're trying to do there is we're trying to say, "Here's a list of negative features in the economy; there are also positive features."

To this point in time, exports have been quite buoyant and strong. The interest rates are moving downward. Inflation is under control. It's a matter of the balance of factors. You may disagree, in fact, that the outlook is positive and that's—

Mr Kwinter: I'm hoping that it is positive.

Mr Jones: What we're trying to get at here is, there's no need to panic. We think things are beginning to fall into place, but there are negative features of past performance that are still with us and that we have to try and do something about, which is one of the reasons we recommend action on the tax front, because we do think it's very important to boost confidence. That really is holding things back right now. We have to get employment moving before incomes start to grow and people start to spend more, making more investment.

Mr Kwinter: I'd like to pick up on a point that my colleague Mr Silipo made. This is the Business Week magazine of February 12, so it's absolutely current, it came out a couple of days ago. They have a little piece on Canada and one of the things that caught my attention is that they're talking about the effect of the Quebec situation and how it's going to impact on the economics of Canada, but then they say, "The economy's biggest drag is from federal and provincial budget cuts." I'm

going to certainly ask that question of others who appear before us who are economists: Has there been a calculation of what that drag is going to be?

Mr Jones: I haven't done a calculation. There is no doubt that when you go through the kind of structural change you're going through now, there are negative impacts. What you're doing is you're paying something in the short term to achieve longer-term security. But you're not going to get longer-term prosperity unless you go through some short-term pain. That's clear. There's bound to be some negative economic impacts from the kind of changes you're going through.

The trick for decision-makers in government is to try and find ways of taking positive steps to minimize those short-term negative impacts and maximize the long-term gain. I don't think there's any denying that there are some negative impacts.

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Mr Kwinter: Could we just pursue the natural gas vehicles? Over the last few years, there's been a lot of interest in electric vehicles, natural gas vehicles. I have driven both—demonstration vehicles. My perception, and it may just be my perception, is that it's not really progressing. There's an interest, but for a variety of reason, you would think that given the advantages, there would be a greater pickup of the technology and it would be more mainstream rather than what I would consider to be a niche kind of role. Do you have any comments on that?

Mr Pinnington: Quickly, there's no question in our minds that we're moving ahead very substantially in the technology of natural gas vehicles. We've new storage facilities aboard the vehicles that are far lighter; that's a significant gain. There are new fuel-injection techniques that are more efficient, environmentally much better and much more flexible in terms of the vehicles they go on. We also have vehicles coming off two of the three major North American manufacturers' lines that are dedicated natural gas vehicles. So this is a very significant advance as well. We see ultimately a great future for natural gas as an alternative fuel.

The Chair: Thank you very much. We appreciate your presentation to the committee this morning.

ONTARIO FEDERATION OF AGRICULTURE

The Chair: Next, we have the Ontario Federation of Agriculture—Mr Morris, Mr Kelly and Mr Walpot. Gentlemen, we have 30 minutes together. If you'd like to make a presentation, we'll follow with questions. If you would identify yourselves for the Hansard record on your first comments, we'd appreciate that.

Mr Tony Morris: Thank you very much, Mr Chairman and members of the committee. I'm president of the Ontario Federation of Agriculture. If I may, I would like to introduce my colleagues today. To my immediate right is Ken Kelly, who is vice-president of the Ontario Federation of Agriculture; to my far right is Darren Hannah, who is in our policy and research area; and to my left is Ed Ketchabaw, who is also in the policy and research area within the federation.

We have handed a brief around. I ask that this be officially entered on to record. I will not be reading the brief to you. I'm quite sure you're capable of that. What I would like to do is highlight some of the areas within the brief and then entertain questions.

Perhaps what I may do, Mr Chairman and members of the committee, is I would ask you, for one minute, to just give some thought to some facts that we as a province and as a nation are facing. I want you to extend your minds out to the year 2030—35 years from now. If you're like me, you have perhaps some younger children who will be hopefully well ensconced in business at that time. I want you to imagine a world population at that time of nine billion people as compared with about 5.8 billion now.

I want you to think of where we have come over the last decade in technology and try to imagine where we may be in 35 years, because just 10 years ago the idea of utilizing satellites to farm had hardly been thought of, and yet now here in the province of Ontario there are many more farmers every year starting to use the satellite system to practise the art of farming. Many of the genetic improvements I am now practising on my own family farm we were doing in a laboratory only 10 years ago.

To try and imagine where we may be in 35 years is very difficult, but I want you to try and imagine forward, because with nine billion people, every single one of those people will have one common thread they will need. They will need water and they will need food. They are the only two common threads, other than that of air, everyone in this world population will have in common.

I also want you to look at the size of this room and imagine that this was the world and the surface of the world, and then take the surface of chair that you are sitting on, because that is the potential land surface that will be available to feed all those nine billion people. It's not the surface of the room; it is the surface of the chair that you're sitting on. That is the challenge we face as agriculture producers and you face as members of society in Ontario and indeed as citizens of Canada.

I want you to think about that for a minute because of the potential and the opportunity that we have in this province. As I will highlight in the brief, some of the opportunities are so enormous and have such incredible job and wealth creation prospects for the province of Ontario that they cannot and simply must not be ignored.

I will highlight those as we go through, but if I could, I would just like to run through the summary of the recommendations.

The reason I asked you to think about that possibility of the nine billion people is because the business that we're involved in will have an integral part to play, if we really want to, in helping feed those nine billion people. It will be the decision of all of us, not just those of us involved in the business of farming, but it'll be the decision that you people make and society as a whole, at what role do we take in feeding that world population.

We only have to look at places like China with 1.2 billion people. We look at the economies of the world that are growing in Indonesia, Malaysia, Korea, China, and some of the eastern bloc countries or the Pacific Rim countries, and can see the potential we have for the kind

of jobs and the wealth creation that this industry—all economic indicators from a number of different sources would tell you that for the next century the leading business to be involved in, the leading economic sector is that of agriculture and agri-food.

Also, I might add that in that would be fibre. I'll give you one statistic: In 1920, in the United States 27% of all product produced on the land was non-food product. Today, it's less than 1%. The potential for increase in that non-food product is phenomenal. I'm not going to go into individual products, but the potential is phenomenal.

I want to highlight under our summary of recommendations just a few areas which we believe to be very critical. You'll notice there is approximately two pages of them, but I want to highlight some of them, because it is on that theme of looking towards the future, towards the 21st century, that we in the Ontario Federation of Agriculture are now highlighting some of those.

Our theme for 1996 is "Farmers mean business," and that is something that perhaps many of you from the urban centres have not given full thought to over the past, because the idea of agriculture that you may have read about in books or seen in old movies is simply not the way it is today in 1996 and certainly won't be in the next century.

One of the key areas is point number (ii), which is to restore the level of funding to agri-food research in Ontario. We simply cannot allow the area of research to take a back seat to anyone. Combined with research, if you cannot put it into action, it becomes of little use.

Our next point, number (iii), is to maintain the capacity of the Ministry of Agriculture, Food and Rural Affairs to support management skills training in the agriculture sector through OATI, which is the Ontario Agricultural Training Institute, and through OATI to develop a strategy for skills and training in the agricultural sector.

I'll move to point number (vi). This we certainly believe will be a critical area as we move ahead in the next decade, and that is the area of water resources. We simply have to start putting sufficient levels of funding to support research on the water resource issue in rural Ontario because that water resource issue is not just to the benefit of us in rural Ontario, it's to the benefit of all citizens of the province.

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I'll move on down to numbers (ix) and (x). We have highlighted a program called NISA, which is net income stabilization account. That is a base level that our funding for agriculture goes to, and we call it safety nets. They are one of the pillars that we have highlighted over the last two years as necessary within the agriculture community. At the present time, there is a memorandum of understanding between the federal government and the provinces that is still waiting to be signed and has been waiting since December 19, 1994. We would certainly encourage this committee, in any way it can, to encourage that signing.

I'd like to highlight number (xiii), because along with the fact that we have a theme called "Farmers mean business," farmers are people; they are men and women, they are families that make up rural communities and they are the very essence upon which every business has

to draw. One of the very key areas that we have highlighted along with groups such as the Ontario Farm Women's Network is that of child care.

I would draw you to numbers (xiii) and (xiv). We would ask that a feasibility study be conducted to look at allowing child care to be claimed as a farm business expense or to extend child care expense deductions to all families regardless of their employment status.

One that of course is still very contentious in the farm community and that we would certainly ask this committee to keep well in mind is the farm property tax rebate. For some 24 years, it has been recognized that the tax system on farm land has inequities in it and the tax rebate was provided to help offset those inequities and what we call unfair taxation. We certainly are aware that people are working hard to address that through tax reform and we simply cannot allow the tax rebate to be adjusted or tinkered with until that reform takes place.

Another one I'd like to just bring to your attention is number (xx). Because I'm highlighting certain ones does not mean the rest are not just as important. But number (xx), considering who has just sat in this chair before me, has to do with hydro and energy rates. We simply cannot in this province allow our farmers, our rural communities to be in an unfair position in comparison to other provinces and some of our trading nations.

I'll use an example. In the province of Saskatchewan, 85% of all rural homes are on natural gas distribution lines. They do it through a 2.5-inch low-pressure ABS-type pipe that is plowed into the ground, and it saves the average farm in Saskatchewan \$5,000. That is pure profit.

We have very little access in the province of Ontario in many rural areas to natural gas distribution. The OFA just recently, through intervenor funding, made a presentation and a brief to the Ontario Energy Board to challenge the methodologies that it uses for the calculation when making a review of natural gas distribution lines in rural Ontario. We believe that simply has to be addressed if we're going to have the competitive advantage that we need as producers in the number of different commodities where they require supplementary heat.

The same with hydro; the provinces of Manitoba and Quebec have substantially lower rates than we do here and we would like that to be considered.

The very last one, and I highlight this because we believe this is critical for this government to keep in mind, is that when looking at revenue generation, funds collected by government or by a government ministry under legislation or regulation, whether it be fees or service fees, royalties, fines etc, be set aside for the enhancement and benefit of the sector they are collected from. There are many examples within agriculture that we could use where funds are raised through revenue generation, through fees or licence fees, that then go back into what we affectionately term, as I'm sure you do, the big, black hole and they are never to be seen again. Quite frankly, if we're going to look at changes in the way we do business, we simply have to look at the way we do business from an auditing standpoint in the collection of fees.

They are some of the highlights. I would like to turn to the actual brief and just give the committee some idea

of the size of our industry. On page 1 you'll notice in the third paragraph we are an industry approaching \$40 billion through what we call the agrifood chain, of which \$6.2 billion are direct farm—gate receipts. Through that agriculture and agrifood chain, which includes manufacturing and processing and retail, there are some 640,000 jobs, second only to the government, I might add, in employment, in job creation.

I might add where the difference is. The difference is that while you are considering reductions in employment, in the agrifood sector, if we are to take input-output multipliers done at McGill University, for every \$1 million of farm-gate sales, 31 new jobs are created, 19 of them direct, 12 of them indirect. Carry that through to the retail sector and we have I believe another 15 jobs that then get created. That is the power of job creation that the agriculture and agrifood industry has.

When we look at wealth creation and we look at the federal government and its move to what they call 20-2000, which is by the year 2000 some \$20 billion worth of agrifood export, we took up that challenge when it was first announced by the federal minister about four years ago. We are now at \$18.7 billion and we will exceed \$24 billion by the year 2000. So we will have gone over target from what the federal minister had asked us to look at as an agriculture sector across Canada.

I would highlight at the bottom of the page that we believe the public sector has a role to play in the present and future success of Ontario agriculture, because it is indeed the public and society as a whole in Ontario that will benefit from what we're able to do in our farming operations.

OFA certainly believes at this time that this is an opportune time for the provincial government to commit resources to assisting the agricultural industry. We would ask you to really consider that agriculture is not an expense. It is an investment into the future. It is an investment into the future jobs for your children, for my children and for your constituents' children.

We need the tools to do the job, and I know there are many other committees looking at regulations and I certainly don't intend at this time to go through those, but we will certainly be addressing those particular committees.

I would ask you to turn to pages 4 and 5, because this is where we believe that agriculture is highlighted. I want to highlight on page 4 OMAFRA total expenditures and to highlight to you how as a ministry and how as an agricultural community we have seen a steady reduction over the last five years of some 25% in our ministry's budget. If we are truly going to challenge the world and meet the demands of nine billion people by the year 2030, we can no longer continue to reduce the amount of what we believe, and what many economists believe, is the most important sector.

On page 5 we have highlighted the government of Ontario and OMAFRA operational expenditures in comparison to Ontario government expenditures, and you can well see the bottom line is where OMAFRA is reducing. We have seen that steady decline, and I might state that when we have done that, we have done it in what we call current dollars. If we change that to constant

dollars, which is adjusted for inflation, the trend is far more dramatic than what is shown.

I would highlight on page 6 the graph that shows the agrifood programs as a per cent of government expenditures. Agriculture—and the Ministry of Agriculture, Food and Rural Affairs—has done its part to assist this province and society in helping reduce the expenditures. The challenge you have in making your recommendations must be then to look at those that have not done the same as what the Ministry of Agriculture, Food and Rural Affairs has done.

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On page 7 we highlight the province of Ontario in comparison to all other provinces as it relates to GDP in the agrifood sector. You can clearly see that Ontario is a long way behind the other provinces of Canada. We simply believe that with 25% of Canadian production, with well over 40% of the population, and we're well over 40% of the food processing industry in this province, we can no longer allow that kind of trend to continue.

On pages 8 and 9 we have tried to highlight for you agriculture is an engine of growth. We have done some work on population growths and their impact on agriculture, as I started at the beginning, and I would ask that you take the time to read it.

I would highlight one, which is China. The prediction is that by the year 2030, China alone, one country, will import 369 million tonnes of grain to feed its population, which is 162 million tonnes more than the total world grain trade this past year.

Now, think of those kinds of numbers. The opportunities are immense. The question we have to ask is, what percentage of that do we want for Ontario? That's the question we would ask the committee to consider when making its deliberations.

On page 9 we have tried to give some economic growth impact indicators through to the year 2004, and you can very clearly see that the areas of most growth are those of the Pacific Rim, and it goes on through our brief to highlight many of the areas in world consumption trends that we believe we have the opportunities to address.

But, as I say, we cannot do that without the tools to do the job, and the tools we will need will be in agricultural finance, in agrifood research, in the areas of training and education, skills development. Within the ministry itself, the message it sends to the international marketplace to relax or to relinquish or to reduce the role of the ministry within government is very critical, because it is absolutely imperative, if we are going to reach out and take a hold of some of those opportunities, then the international marketplace has to see that there is a commitment from this province to its growing industry of agriculture and food.

In the area of investment in environmental quality, Ontario leads the world. Ontario farmers, through their environmental farm plan, have been highlighted at the 1992 United Nations Conference on Biodiversity as the most proactive sector anywhere in the world when it comes to dealing with the environment, and we're very proud of that. The recent Canadian report on biodiversity

used Ontario farmers as an example of what every other sector of industry could do if they would do it voluntarily and work together with the idea of making things a whole lot better. We're very interested in that, because what it does is it gives us the opportunity now to look at marketing our products with an environmental integrity, perhaps a special branding that we can market to the world to say we are the best; there is no one that can touch us.

Groundwater quality: I highlighted in the beginning that I believe water is going to be the issue of the next decade, and it's not just an issue for farmers, it's an issue for each and every one of us. We have been proactive in starting a committee called the Water Quality Working Group, of which I am part through being a co-chair of the Ontario Environmental Farm Coalition, and we will be addressing the issue of water quality and water taking and the water quantity.

Then there are any number of different areas, from predator compensation, for the very real problems that many of our farmers face from the natural wildlife; farm income safety net programs; whole-farm income stabilization. We need rural child care, and flexibility when it comes to child care, because in many rural areas it simply isn't available. The area of tax is critical to us; pension reform; harmonization of GST and PST; and a whole number of different areas as it relates to that.

One of the areas we would highlight is in the area of things like investment tax credits. In the past the federal government had ITCs for the purchase of machinery. Only 15% of the machinery that is purchased is actually made in Canada; 85% of it comes from either across the border or from overseas. The investment tax credit on machinery simply benefits those outside this nation. An investment tax credit in Ontario on buildings is a boost to the rural community because it uses local labour, predominantly Canadian material and provides jobs in those local communities and provides the opportunity for farmers to upgrade facilities.

Areas of capital cost allowance: I know perhaps that's a federal issue, but I would certainly ask that this committee give consideration to highlighting it in the future. We are told we cannot finance bonds for any longer than seven to eight years, yet our capital cost allowance does not allow us to write it off in that time period and therefore puts us at a disadvantage.

I would conclude by saying that agriculture is a growth industry. It has the opportunity, it has the potential, but we need the tools to do the job. We need a ministry that is there to tell the world that we have the products, we have the farmers, we have the quality that the world wants. I would ask this committee to give that consideration and say thank you, Mr Chairman. We would entertain questions, if there are any.

The Chair: Thank you very much, Mr Morris. Indeed there are questions. I have quite a long list. I would suggest we have two minutes from each party for questions, and would the government lead off, please, with Barb Fisher.

Mrs Barbara Fisher (Bruce): I was able to get in at the start of your presentation and was at the back and made my way to the table here. I'm very pleased to have

you here, as well as all the other members of the committee, obviously.

Mr Morris, you recognize that in every ministry of the provincial government today we're in an area right now of financial constraint and potentially reduced spending in each of the ministries. I've been meeting with our local commodity groups in the Bruce over the past while. I would ask if we are, in due respect to the industry and the importance of it—and once again you've done a very significant and important job in providing this committee with the information that you have. However, if there was to be a need for considering reduction in spending, would you feel that the reform of the taxation system in Ontario would help eliminate some of the concerns there are around the farm tax rebate system as it sits today?

Mr Morris: It's certainly a pleasure to be here with another member from Bruce county as well.

We have pushed for some 20 years for the reform of the taxation system as it relates to the tax on farm land, and certainly we support any and all initiatives that are reviewing that and would encourage meaningful tax reform, and I stress "meaningful" tax reform, because if tax reform is to take place and simply takes it from one hand and puts it in the other, that will not be meaningful. It has to be a tax reform that recognizes the inequities that we have on farm land and removes them, and so it removes the need for the farm property tax rebate. We have stressed that for 20 years, and we will continue to stress it.

I might add that we recognize the financial constraints the government's under. We are taxpayers; we are citizens. But I will say, as farmers, we came through the 1980s; we know what financial restraint is all about. But we also learned that you plant a dollar today to harvest two tomorrow, and you don't cut that dollar that's going to make you two tomorrow.

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The Chair: We move to the opposition, and I do apologize to the members of the government. I know you all wanted to ask a question.

Mr Crozier: I just have a comment. This room this morning, Mr President, has as many or more people in it than I've seen all this week. I think that attests to the concern and the interest in agriculture. What I'm deeply concerned about is that the government only gives it lip-service, invisible service, at a meeting like this.

Your budget is around a half a per cent of the total budget in this province. I think you've made good points, particularly in the areas of research, and I think it behooves the government to pursue this, in view of the fact that in a letter you sent to me there is a quote, "That's why there are no cuts to agriculture programs in our document the Common Sense Revolution." In fact, the Common Sense Revolution doesn't even mention agriculture, and I think it's a crime that they're going after 30% reductions after having said that.

My colleague probably has a question.

Mr Pat Hoy (Essex-Kent): Thank you for being here this morning. The Minister of Agriculture has announced a 35% cut to agriculture. All industries tend to be in a global market, no less so for agriculture. I'd like to ask what signal you think this 35% cut is showing to the

world, and what are other countries doing with agriculture in lines of research, for instance?

Mr Morris: First, I don't think the minister's announcement will be a 35% cut. I think he has announced that they have to consider same, and we're certainly hoping very, very much that the government will reconsider our ministry in light of what we have done over the last five years.

The second part of your question, if we look at Europe, certainly within the common agricultural policy there are reductions happening in subsidization to farmers. We've seen that right here in Canada and we've seen it in Ontario, and we support that. But if we look in other areas that are green under the General Agreement on Tariffs and Trade, they are increasing their funding to agri-food research. They are increasing their funding within the education system, within training and skills development to the workforce. They are increasing in a number of areas that are green, what we term green under the GATT agreement, environment being one of them.

The United States, under the proposed US farm bill which just passed, sure, there's a seven-year phase-down in subsidization payments to farmers, but read through the document and read what else is in there. They're increasing research, increasing skills development, increasing funding to environmental remediation within the agricultural sector, because they recognize the importance in the future, and we simply can't forget that in this province.

Mr Silipo: Thank you very much, Mr Morris, for being here with your delegation. I just want to make a brief statement. My colleague Mr Hampton, I know, has a couple of questions he'd like to get in.

I just want to tell you, first of all, that I appreciate very much the extensive presentation you've put before us, and to tell you that, as someone who comes from urban Ontario, there is also a lot of understanding and appreciation for the value of agriculture as an industry, particularly in a riding like mine, where, like me, many of my constituents come from rural and farming backgrounds. It just happens that it was in other countries as opposed to Ontario, but the understanding is there, the appreciation is there, that without a strong agricultural industry all of us lose, wherever we live in Ontario.

Mr Howard Hampton (Rainy River): Can I ask you a quick question about hydro rates? It's my understanding that under the rural rate subsidy structure, and you've covered it in part in your brief, farmers enjoy or receive a hydro rate that is about half of what it would be if Hydro were sold off and moved to a system whereby you pay cost. If you live in a very intensely populated area, cost would apparently drop. If you live in rural areas, cost would apparently go up. Has the federation done analysis on what the impact would be on rural residents and farmers in the province?

Mr Morris: I'll answer very quickly. It's not just farmers that get the rebate; it's all rural residents. I might add that when we look at hydro, it is not just price that we give consideration to. Some of the very, very critical areas are in quality. In areas of what we call steady state voltage or non-steady state, we have done a tremendous amount of work with Hydro so that we have now been

able to set standards for steady state voltage problems and have actually come to compensatory values for the damage that it causes.

One of the key areas now is what they call non-steady state, which for those who don't know, is what we call tingle voltage or dirty hydro. We are now working with Ontario Hydro and the association of electrical engineers, who have developed a machine to actually try to measure this. It is a very real problem, and we are working with them to try and establish (1) how it happens and (2) how we get compensation for it, because it has had dramatic effects on summer farm operations.

Service is another very critical thing. Where we have barns that are absolutely dependent upon a steady quality hydro service—the area of our poultry industry, the dairy industry, the swine industry and a number of others, from aquaculture to a number of greenhouse industries, and the list would go on—the service is critical, because you cannot simply, at minus 30 degrees, have a power outage that cannot be addressed immediately—or alternatively a supplementary heat source. So it is more than just price, and that is an area within the Hydro talks that we have taken a very close look at. The idea of price is obviously very critical, but quality and service of the actual delivery system are very important to us as well.

The Chair: Thank you very much, Mr Morris. I'm sorry that our time has expired. As Mr Crozier pointed out, we have had more visitors for your presentation than at any other time. I'm sure that fact will not be lost on the committee as we enter our deliberations. Thank you very much for joining us this morning.

Mr Morris: Thank you, Mr Chairman, and I do apologize for not allowing more members to answer questions. Perhaps next time we can get an hour.

The Chair: You're not out of the building yet.

CANADIAN ASSOCIATION OF RETIRED PERSONS

The Chair: I would like to welcome the Canadian Association of Retired Persons, Ms Lillian Morgenthau.

Ms Lillian Morgenthau: Ladies and gentlemen, thank you for asking CARP to present. I'm president of the Canadian Association of Retired Persons. CARP is a national association of Canadians over 50 years of age, retired or not. CARP is a non-profit association that takes no funding from any government. Our membership is over 240,000 with about 90,000 households in Ontario.

The aim of the association is to improve and maintain the quality of life for Canadians over 50 years of age. We therefore maintain a deep interest in government programs relating to this age group.

Most seniors over 65 years of age have a fixed income and limited opportunity to increase their financial security. They must live on what they have prudently saved for their retirement years. They did not have RRSPs available to them for most of their working years, and pensions are the main source of income in many households. Their simple wishes are to remain independent in their own homes, to be healthy and mobile and to be financially secure.

The prudent fiscal responsibility of today's seniors has allowed many of them to accumulate significant assets.

These assets will serve to provide for the uncertainty of the future both for themselves and their children. However, the longevity of seniors today puts their retirement savings at the risk of not being enough for their older years. Over 50,000 North Americans are over 100 years of age, and we do not believe that Big Brother will be able to look after them if governments continue this tax grab. It behooves the government to make sure seniors remain independent.

This group of Canadians has, through the years, pulled the country through wars and financial crises. We would certainly have no objection to helping out again if it could be proved to us that all Canadians were being asked to pull their own weight, not only seniors. Seniors are consistently asked first to help governments out when they find themselves in a mess, and once again we will be the primary target, with the new omnibus bill. Since seniors are the primary users of services, especially health services, we will be severely punished by the proposed user fees.

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Public service issues: In many cases a senior's largest asset is his or her house. Any changes in laws which have the effect of municipalities raising property taxes are unfair to seniors. Frequently, high municipal tax costs make the cost for seniors to stay in their homes prohibitive. Municipalities should consider a way to accrue property taxes for seniors over a certain age, and then upon death, or when the property is sold, the taxes which have accrued would be payable. This would allow seniors with limited income and cash flow to remain in their homes.

Seniors consider family values extremely important and we feel that the government should encourage this. In CARP's view the government should explore the idea of awarding provincial tax credits to seniors who perform acts which help to reduce the government's burden. For example, seniors who take in their elderly parents or their children when they have been laid off and look after them should be given a tax credit for reducing the welfare rolls. Many seniors look after grandchildren while parents are at work or go to school. This decreases the strain on government-subsidized day care spaces and should therefore result in a credit on the seniors' taxes.

CARP would like to see municipalities review zoning bylaws which prevent the building of granny flats. Granny flats are useful in two ways. First, seniors could use them to house children who have lost their jobs. In addition, seniors who require care which prevents them from living completely on their own can move into granny flats with their children and, while still maintaining some degree of independence, get the care and attention they require, all at a lower cost to the government.

Health issues: Health concerns are of paramount importance to CARP members, as they are the primary users of these services. It is natural that with age they will require more assistance and will have more health-related problems than younger people. We are concerned that they will be unfairly penalized by proposed user fees and cuts in services.

CARP recognizes the cost constraints faced by the Ontario government and the Ministry of Health. We

understand that Ontario is trying to control rising drug costs through a copayment program or deductible within the ODB program. We are concerned with any fee that might deter seniors from receiving necessary prescriptions. If seniors are forced to pay higher fees for medications, they may have to do without them.

In the long term, this will cost the government more than providing the drugs at a reasonable rates. If seniors are forced, due to costs, to forgo necessary or preventive medicine, the end result may well be hospitalization for the condition the medicine was supposed to prevent in the first place. The cost of unnecessary hospitalization is surely more than the savings which would be realized by increasing the cost of drugs to seniors.

We oppose the new regulations governing the Ontario drug benefit program, whereby low-income seniors and welfare recipients would pay a user fee of \$2 for every prescription and single seniors earning more than \$16,000 or senior couples more than \$24,000, which really is the poverty level, will pay the first \$100, plus \$6.11 per prescription. The threshold is, in our opinion, too low.

Moreover, unlike other provinces, there is no maximum beyond which seniors would not have to pay. CARP would like to see a higher, more realistic income level set and a maximum amount of payments.

We understand the fiscal pressures facing the Ministry of Health as the government tries to balance the budget while still delivering quality health care services. CARP believes there is enough money in our health care system. The problem lies in how the money is spent. The stakeholders should be the architects of the changes, not the politicians. As changes to our health care system are made, we are concerned about the impact of the changes on our members, since our members are disproportionately high users of medicare.

During the MTDHC public deputation sessions, a number of concerns were raised about the accuracy of the project's financial forecasts, especially its overestimation of what MTDHC hopes to save and its underestimation of the true costs of transferring programs, merging and/or closing hospitals. We also did a review of that review of the hospitals and closures and it is available to this committee. While this commentary does not intend to provide analysis on cost implications related to specific hospital recommendations, it does wish to highlight two major concerns related to the MTDHC's financial projections. I really hate initials, and if you want to know what they stand for—I'm sure you all know—please ask me.

When the numbers were analysed, it appears that little savings were attributable to actual merging and closing of hospitals, and the capital costs required estimated by this group to achieve reconfiguration appear to be underestimated; as a matter of fact vastly underestimated, and if you look at the brief we gave to Jim Wilson you'll see it's all been laid out. When realistic capital estimates are added to the cost of building up the primary care sector to handle increased responsibilities falling from the hospital sector, the total costs of restructuring may more than offset any predicted savings.

With respect to the government's plans to merge and close hospitals, we are again concerned that their goals and benefits are shortsighted and that we will all suffer in

the longer term. The report shows that the government estimates it will save \$1.3 billion, accruing over five years' time. In fact, \$1 billion of this is attributable to best practice or clinical efficiencies which are unrelated to and independent of hospital mergers and closures. This means that the merging and closing of our hospitals will only save \$0.3 billion. Of the \$410 million annual operating cost savings estimated by this board, \$215 million are attributable to best practice or clinical efficiencies, and a further \$100 million is attributable to support service savings, such as group purchasing.

The government would, therefore, be doing its citizens a disservice by merging and closing these hospitals, and the small savings it would realize would soon be negated by the additional strain on the system caused by the inconvenience of having local hospitals closed.

For example, seniors who ordinarily rely on area hospitals will now have to call ambulances should they need to get to hospitals which are further away, even for non-emergency situations. In addition, the closing and merging of hospitals will make the current shortage of available beds even more critical, resulting in a greater number of ill seniors being forced to remain at home in the care of relatives.

This is really a deep concern of ours. If you have to go, because Wellesley Hospital has closed, to Toronto East General and Orthopaedic Hospital, you're not going to get there. I did try it. It's four transfers of local buses and streetcars and it takes a tremendous amount of time. You're going to be calling ambulances, you're going to be calling taxis; you're not going to be able to get there the way you used to be available to walk over. It's ridiculous to close a hospital that has access to all the transportation.

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While this may seem like a good solution in a short term, the government should realize that the relatives who stay home to care for their elderly relatives are actually costing the government money since they're no longer contributing to the provincial tax rolls as they cannot work while they're at home looking after a sick relative.

The financial projections developed by this board to support its restructuring exercise can be quite seductive to governments seeking to reduce provincial deficits through reduction in public spending, but it must be recognized that the hospital-based savings predicted by this board hinge on the ability of the community to accept the increased responsibility thrust upon it by the hospital sector.

Like a giant seesaw, changes in the hospital sector must be balanced by changes in the community in order not to compromise patient care. Consequently, government is cautious not to adopt a singular focus on what moneys can be extracted from this board's recommendation. Government must be prepared to commit funds beyond what has already been identified if patient care is to be safeguarded.

Education: Seniors have a vested interest in education for a variety of reasons. Often, seniors are finding the need to augment their income and hence need to learn new skills. Adult education classes are continually full. Seniors also have unemployed children and grandchildren

who are returning home and need to further their education in order to re-enter the workforce. Seniors also pay property taxes, 50% of which goes towards education. Naturally, they'd be interested and concerned in how their tax dollars are spent.

The expected reduction in the budget for education of \$400 million during the period from April 1, 1996, to March 1997 will make it more difficult for children and adults alike to get the quality and type of education they need to join or rejoin the workforce and become active, productive members of society.

While it is obviously critical for students to learn math, reading and writing, it is also the after-school activities which provide invaluable tools that will be used throughout life. Activities such as band, team sports, the school newspaper and taking part in their school play all teach children interaction and problem-solving and allow them to develop skills which will prove marketable in the future. These after-school activities also help to provide self-confidence for children who lack self-esteem. Having been in a school play myself, and the shortest one in the class—but I had a voice—I can tell you that it is important to be part of that kind of group.

Cuts in funding will mean reduction or elimination of most of these programs. In addition, libraries, guidance counsellors etc are all threatened. Children need guidance. They need the counsellors, more probably than ever these days with every couple having two people working. They need someone they can talk to.

Families are splitting apart. It's amazing what's happened to the family group. It's not the way it was when I'm sure you and ourselves were growing up. I think we have to have other areas for children to be able to run to, otherwise we get angry, unhappy, miserable kids. We do have to have someone around.

The proposed College of Teachers will create yet another unneeded level of bureaucracy which will be very costly and redundant. The college will require that teachers become members in order to teach or administer within the education system. The total cost for the college is \$13.5 million annually. Theoretically, this will be paid by the teachers. They will also pay user fees for recertification, letters of standing etc, so the \$13.5 million will supposedly be paid by teachers. Since we, the taxpayers, pay the teachers, it is in essence we who will be funding this unnecessary added bureaucracy.

A better solution would be to amalgamate the Ontario boards of education into as few as possible. The current situation with a regular board of education and the Catholic board, both supported by taxes, is wasteful and unnecessary. They could easily be amalgamated and provisions made for groups with constitutional privileges, such as Catholic and francophone communities. This would eliminate a great deal of bureaucratic overhead and prevent waste. All tax dollars could be funnelled into creating one good school system, instead of funneling taxes into two separate less than adequate school systems.

In conclusion, the current government has made strides. For example, changing the formal pay equity legislation, acknowledging that this is a matter better served by conscience than government. This has resulted in increased investments in Ontario and encouraging the move of business into Ontario.

However, we would ask the government now to wait and to examine other situations more carefully before making wide, sweeping changes. They have only been in power a short time and really have not had time to become familiar with the different issues of their portfolio. We recognize that early in term is the best time, politically speaking, for unpopular changes to be made so that people will forget about them before election time. I will tell you, seniors don't forget. They have nothing to do but remember. However, the rampant changes that are being proposed will have far-reaching and devastating effects on the entire province, and seniors in particular.

The government must consider alternatives to simple cuts in the public sector workforce. For example, unemployment and welfare rolls are currently swelling through corporate layoffs. However, if less drastic action had been taken through companies and unions working together, this could have been avoided; for instance, cutting wages for an entire company by 4.5% instead of laying off a portion of the workforce.

This would allow all employees to retain their jobs. Although they would be making less money, it would allow them to still pay their own way and keep the government's costs down by reducing the amount of welfare and unemployment it would have to pay. Companies and government should be urged to consider other alternatives to layoffs, such as shorter weeks, job sharing. This could help to restore a feeling of security and stimulate the economy. The concept of Rae days looks pretty good to someone without a job.

Seniors feel they've been led down the garden path by this government. For years they've been told they will be looked after in their golden age through CPP and OAS. Seniors have believed this and planned for their retirement based on the assumption that the government was telling the truth. Therefore, we feel the government has an inherent responsibility to look after seniors and to ensure their welfare, rather than hitting them with user fees and forcing them to utilize their remaining assets to balance the books politicians have mismanaged for years.

Thank you all for listening, for staying and for being polite.

Ms Castrilli: Thank you very much, Mrs Morgenthau. What I especially liked about your presentation was the way you interrelated the comments you made on other elements, such as you have a holistic approach to governance, and I for one thank you for that.

We don't have a lot of time and I have a lot of questions, but let me focus on health care. We're all familiar with the Common Sense Revolution and the statements that were made there, and I refer you in particular to two statements made in that document on pages 6 and 7, if you ever want to consult it. There were two very simple statements made there: "There will be no new user fees," and "We will not cut health care spending." In the light of government action, how do you interpret those statements?

Ms Morgenthau: I think we have to really look at what those statements mean. Those statements say that seniors, I think all Ontarians, are very frightened by what's happening. Because I've always lived on a budget—which my husband of course said was complete-

ly irresponsible—I don't think we can not say we have to have a budget. We should leave this to the health care, to the hospitals, who say: "Okay, you want us to do certain things. We've closed our beds. Give us the money, let us do it, and have a stakeholder sit on the board."

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I think politicians mean well, I really do. I think they come in, they mean well, they're trying to do things. But we have a big deficit. The deficit should be attacked by the people who know what to do. In closing hospitals, I think they're making one big mistake. What they should say to the hospitals is: "You have a budget of X number of dollars. Stay within it." If they would do that, I think we would be able to cope with our health care in the very best way, and provide quality health care.

Ms Castrilli: Of course, Bill 26 won't allow for that kind of input. The minister will decide on—

Ms Morgenthau: No, that's not exactly true. We are not happy with Bill 26, but that doesn't mean that we shouldn't look at it from its good points.

Bill 26 gives too much power to the minister and to the government without making them responsible for that power. We feel that everybody, including government, must be responsible for its actions. Even Brian Mulroney is taking us to court because he has the right to do so. We cannot take this government to court. The omnibus bill does not allow that. On top of which, with all due respect to the government, most of the government are rookies. This is the first time that they're in government, and they should have time to become more accustomed to how government works. The omnibus bill gives too much power without any restraints. That's what's wrong with it.

Mr Silipo: Thank you very much, Ms Morgenthau. I hope the government members are listening to those words of wisdom that they should take time—

Ms Morgenthau: Well, they should. We've been writing to them.

Mr Silipo: I had the chance to hear you on Bill 26, in that committee, and I appreciated your presentation there as well.

I just want to make two points. First, I take a bit of issue with one item in your conclusion around pay equity and just of ask you to think a little about that. What the government did by removing proxy pay equity was to do for about 100,000 women what I think you're telling us the government shouldn't be doing for seniors in general, which is to in effect take out the right to pay equity for 100,000 of the lowest-paid women in the province. That's something that I, for one, am troubled by, because it was put in there to rectify an injustice that has been there over the years. I just wanted to flag that and ask you to give that some more thought.

I want to ask you about the issue of the 30% tax cut, which you didn't address directly in your presentation. It's certainly our contention that one of the key reasons the government is cutting spending in a number of areas—including in health care where they said they wouldn't be cutting, including in education in the classroom where they said they wouldn't be cutting in classroom spending, and clearly now the minister even is admitting that taking \$800 million out of the system is

going to be difficult without affecting the classroom—is for them to be able to fund the 30% tax cut.

I just wondered if your organization had any comments. What we're seeing is that even though the government initially said the tax cut was to create jobs, the minister is now admitting that those jobs aren't going to be there, at least in the first couple of years after the tax cut. Is that worth it? Is that tax cut worth the pain that it's causing?

Ms Morgenthau: I think you too haven't quite been listening, if I may. They said they wanted to do a 30% tax cut, but now the government is saying, "Well, maybe not quite so fast." It's really funny. I have four children; three of them are girls. When they got married they said, "I'm going to run my household on X number of dollars." When they got into that household, they found that they couldn't run their household on X number of dollars. I think what's happening here is that our government is finding that it can't do certain things and that it is not able to give us 30%.

And Ontarians, although they want tax cuts, don't want to pay for everything to get those tax cuts. You're going to pay for garbage, for gas, for everything under the sun except breathing the air, and I'm not sure that wouldn't get taxed if they had a way of doing it. Like I said, you have to balance things, and I just think that jumping in with both feet before you have a chance to walk is not the way to do it. I'm really suggesting strongly that government take a strong look at what they're doing, because seniors never forget and they won't forget. They voted them in and, like your own party, the NDP, they'll vote them out.

Mr Tim Hudak (Niagara South): Thank you for your presentation—very broad. There's one issue you didn't touch on that I wanted to bring up. Some groups, the OFL and OPSEU, have suggested that the government should return to a loose monetary policy. In the past, loose monetary policy has always resulted in significant levels of inflation. The late 1970s and early 1980s are great examples. Do you think CARP and seniors in general would like to see a loose monetary policy and higher inflation?

Ms Morgenthau: It's a subject I really haven't addressed, but I would think inflation would be very bad for seniors. Inflation is really two-pronged. When they say our inflation is at 1% or 2% or 3%, they're wrong, because inflation to seniors means higher municipal taxes, higher heating bills, higher telephone, higher for the things they cannot do without—not luxury items, necessary items: food and clothing. Then comes everything you have a choice of buying. Maybe those have come down, but in contrast, the things we need have not come down and every year have gone up. So the budget of seniors and people who have been laid off is not sufficient.

Mr Hudak: I would think it would be especially damaging, given the fixed incomes seniors tend to have.

Ms Morgenthau: I think you have to be very careful with inflation.

The Chair: Thank you very much, Ms Morgenthau, for presenting today for the Canadian Association of Retired Persons. We appreciate your attendance.

Ms Morgenthau: Thank you very much, and it was an honour to speak to you.

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HUGH MACKENZIE

The Chair: We now have, from the United Steelworkers of America, an expert witness asked for by the third party, Mr Hugh Mackenzie. We welcome you to the committee, sir. We have 45 minutes together; begin your presentation at your convenience.

Mr Hugh Mackenzie: If I may, I'd like to correct the introduction the Chair kindly offered. I am employed by the United Steelworkers of America as the research director, but I'm not here in that capacity. I could probably give a lengthy disclaimer about the relationship between the views of the organization for which I work and the views I'm going to express today, but suffice it to say that I'm here in a different capacity. I have the misfortune to be an economist, and in that capacity I spent the better part of four years working with the Fair Tax Commission in Ontario as the executive director and, along with our research director, Allan Maslove, was responsible for most of the drafting work in the commission's report. It's from that experience and that perspective of analysis that I'm coming to you today.

I'm going to spend a few minutes making a presentation to you focused on a particular aspect of what I believe to be the government's intended policy, and then comment on a couple of other things. Then, obviously, I will be available to answer any questions on this or anything else that has to do specifically with this stuff.

The focus of the presentation is going to be on the tax cut. Let me say at the outset that I would certainly hope that the previous presenter is right and that the government is losing its resolve on the question of the 30% income tax cut, or whatever the number happens to be, because I think, both as tax policy and as economic policy, it will have very unfortunate consequences for, in the first instance, tax fairness in the province and, in the second instance, for the economy of the province. The focus of my presentation is on the elaboration of those two points.

Let me start first by looking at the total value of the tax cut and the nature of the election promise, because that's in fact what we're talking about. We're talking about an election promise. The nature of the tax change that was proposed has been a little bit slippery. It has been variously described as a 20-point cut in the provincial income tax rate as a percentage of basic federal tax. As you know, basic provincial tax is a flat percentage of basic federal tax when you go through your income tax form. Ontario's percentage of federal tax is currently 58%. In some of the documents that have been used to describe the government's promise, it's been described as a 20-point cut; in other words, a cut from 58% of basic federal tax to 38% of basic federal tax.

It's also been described as a 30% cut in income tax. My math is a little weak off the cuff, but 58 down to 38 is a higher percentage than 30%, and it implies a different change in the percentage of basic federal tax. So that's a second notion of what the promise was.

The third notion that floated around during the election campaign was that the total value of the cut would be \$4.7 billion.

In fact, those three notions are quite different. A 20-point cut would have a revenue impact of about \$6 billion on an annual basis and result in a 34.5% cut in tax. A 30% cut would come in at a cost of about \$5 billion, and that appears to be the number that most outside commentators are taking as representative of the Common Sense Revolution promise. That's certainly the number that the Dominion Bond Rating Service, for example, has been using. And then the \$4.7 billion that was cited as the cost works out to be the equivalent of an individual tax cut of 28.7%. So you can see there's a variety of different notions here.

The point of these different notions is that all those tables that appeared in the Common Sense Revolution document and the various other documents that have been circulated were all based on the 20-point cut. If you work through the arithmetic and look at the footnotes, they're based on a cut in Ontario's tax as a percentage of basic federal tax, from 58% to 38%. At the same time, when it came to talking about how the books were going to be balanced, the number that was used was \$4.7 billion which, as I've pointed out, doesn't correspond to the 20-point cut. Having said all that, for the purposes of the analysis that I'm going to take you through, I'm going to take the \$5-billion number, which represents 30%, as representative of the nature of the commitment that's been made and focus on that in the analysis.

Let me turn you to the first bit of analysis that I've put together. Maybe I'll skip the first chart and go to the second. It's always complicated, in talking about tax incidence and the impact of tax on families, because it's a great Canadian tradition that every group you talk to, regardless of the nature of the group, thinks it's middle-income regardless of what its income is. One of the things I used to do occasionally, when I was working with the Fair Tax Commission, as a bit of a reality check for people there was to show them an income distribution chart and ask them, without betraying any confidence, to just think about where they fit on it, and therefore to think about how their circumstances fit relative to the average family. I'm going to do that to you.

This is a chart that shows a distribution of families by family income range. As you can see, there's a big lump over on the low side and it tails off to a pretty small tail on the high side, which basically makes the point that most of the people I work with and most of the people you work with are on the high side of the median income. If you look at the impact of a proposed tax cut of \$5 billion in total, 30%, and look at how it's going to affect families in various income ranges, you get a pretty stark picture of the inequities in the distribution of an income tax cut.

The method in the analysis was to use the Statistics Canada social policy simulation database and model, which is a model that's been developed by Statistics Canada and is used very broadly to analyse the impact of a variety of policy changes, including tax changes. What you get when you do that is a picture that looks like this, with the highest average benefits in income ranges going to people at the very top end of the income range and relatively small changes going to people at the low end of the income range. I invite people to look at how these

two compare. That will give you an idea of where most of the people are and where most of the benefits are.

When you look at the details—on page 5 of this little set of notes—you have an average tax cut per Ontario family of about \$1,100. But more than half of the tax cut, in value terms, would go to families with annual incomes of over \$90,000 a year, which represents the top 13% of Ontario families. The average cut for these families would be \$4,400. The average cut for the 87% of families, with incomes below \$90,000, would be \$625. I've got some other numbers there, some of which you can see come directly from the chart.

The basic point is that we have an enormously skewed distribution of benefits from an income tax cut, which stands to reason when you consider that this is a proposed cut in the only progressive tax in the Ontario tax system. Given some of the other changes that are being made at the same time as part of the government's program, even the \$1,000, roughly, that this would produce for a family with income between \$50,000 and \$60,000 a year, with a combination of municipal taxes going up as some of the impact of education transfers is absorbed in property tax increases, as tuition fees go up, as user fees go up for various other things, you can see that \$1,000 disappearing pretty quickly. That's the first basic point.

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The second basic point, and let me just underline the point, is that this will make the tax system significantly more regressive and delivers a significant benefit to people at the very high end of the income scale and relatively substantially less to people at the low end of the income scale. Let's look at the impact on the economy.

I've assumed here that the government intends to keep both of its promises: that it intends to balance the budget by the year 2000 or 2001, and that it also intends to deliver on its promise of a 30% tax cut. In other words, compared with the tax system in the current state, a cut in the revenue base of the province of \$5 billion would have to be matched by additional cuts in spending beyond what would be necessary if the tax cut weren't implemented. In other words, what I've done in this analysis is to take a balanced approach to this. I balanced off the revenue implications of the tax cut with the spending cuts that would be required to put it back into balance and to meet the budget deficit target, which I think now basically just about every observer of the province's fiscal scene would agree is a necessary thing to do.

Here's where the implications start to raise serious questions about their advisability in this economic environment. If income tax cuts had the same impact on employment in the economy as expenditure cuts, then the net effect would be a wash. You'd have money going out of the system through income tax cuts and you'd have economic activity being drained out of the system by virtue of the spending cuts and it would be a wash. The problem, and the economic problem the government now faces, is that tax changes and expenditure changes have very different impacts on the economy. Furthermore, different types of taxes have different impacts and different categories of expenditure have different impacts.

What I've done on the next page is to summarize typical impacts that would emerge from an analysis of discrete changes in various aspects of government activity that the government has control over. These are estimates of the number of jobs that are related to a billion-dollar amount in each of these categories. In other words, if you look at the top one, if you were to increase the income tax in Ontario by \$1 billion, there would be a negative impact of 10,000 jobs as a result of that increase in income tax. Conversely, if you reduce income tax by \$1 billion, you get a negative impact of about 10,000 jobs.

When I made the point about there being differences in impacts in different categories of taxes, when you come to indirect taxes—what I mean by indirect taxes is not the legal or constitutional definition of an indirect tax, but a tax that applies in the exchange of goods and services rather than directly on economic factors, taxes like the GST or the retail sales tax in Ontario, for example. For those kinds of taxes, the impact is much greater. It's about 48,000 jobs for each \$1-billion change.

On the expenditure side, cuts in wages—for example, salaries paid to teachers, salaries paid to hospital workers, salaries paid to government employees—there's a loss of about 42,000 jobs for every \$1 billion in expenditure cut; for non-wage government expenditure it's about 20,000 jobs; for spending on capital—infrastructure spending, subways, road repair, that sort of thing—it's about 18,000 jobs; and for transfers to people—you get into a debate about what kinds of transfers this lower impact would be, but it basically would be transfers to people who are fairly broadly distributed through the economy and have an effect on the economy that's similar to income tax.

In putting together the numbers for these impacts—I'll acknowledge freely that the old statement, if you took all the economists in the world and laid them end to end you wouldn't reach a conclusion, applies to this kind of economic analysis—you'd find disagreement about these numbers. I acknowledge that freely. But the relationship between the tax side and the expenditure side, I think you would find if you talked to any economist who does this kind of analysis, would be pretty similar. You might find that some people will say the income tax impact is bigger, the income tax impact is a bit smaller; there are some people who might say, for example, that the impact I've suggested for sales tax is overstated, but in general you're not going to find people who study these things seriously and model them seriously coming up with dramatically different conclusions.

To do the analysis, I assumed that the matching expenditure cuts that would be required in order to achieve a balance along with a tax cut would be similar to what's been announced to date. I don't have a crystal ball; I don't know what the government would do to acquire its next \$5 billion, but for the sake of an analysis I made the assumption that it will be roughly the same.

I also made the assumption that a portion of an expenditure cut that went to municipalities would be recouped by municipalities to the tune of about 45%, either through increased property taxes or increased user fees, and likewise that expenditure cuts for school boards and colleges and universities would be recouped through

increases in tuition fees or increases in local property tax to the tune of 55%.

For the purpose of the first piece of the analysis, I'm assuming that there are no leakages outside the province. In other words, all the job implications take place here.

What you find is that with a \$5-billion income tax cut you end up with a positive impact of about 50,000 jobs, but the impact of the expenditure cuts is negative, to the tune of somewhere between 145,000 and 175,000 jobs. The variation there really depends on what kinds of judgements you make about the impact of income tax changes. You'll get towards the lower end if you assume that income taxes have a bigger impact on the economy; you'll get something towards the higher end depending on other assumptions you make about how these things are distributed. But that's roughly the range. A hundred thousand jobs is about a year's job creation in the province of Ontario, so it's a big number.

That's not the complete story, because we live in an open economy here in Canada, still, and there's a great deal of interchange of goods and services and people between Ontario and the rest of Canada. So the impacts of these changes, both positive and negative, will be distributed very broadly throughout the economy. When you factor in the enormous amount of interchange that takes place both interprovincially and between Ontario and other parts of the world, the impact of an income tax cut is still positive, but it's dramatically reduced, and so is the impact of the expenditure cuts, but to a lesser extent. The reason why that is, is because the expenditure cuts, most of them almost by definition, start off right here in Ontario, so there's a large initial impact because goods and services are being purchased here.

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So you get a net impact of, to round things, in the range of 50,000 to 75,000 jobs negatively as a result in Ontario of a balanced income tax cut and expenditure cut designed to achieve these combined promises. In just about any scenario you get a negative impact on the rest of Canada of another 50,000 jobs as a result of this.

The point, in conclusion, is that if you take all of this at face value and you assume that the balanced budget target is going to be met chronologically and the income tax promise is going to be met, then an analysis of the impact of these changes on the economy tells you that it's going to have a negative impact of somewhere in the range of 50,000 to 75,000 jobs in the province and another 50,000 jobs in the rest of Canada.

I should point out too that this doesn't take into account the impact on income tax revenues of that kind of job loss, so that you could conceivably get into a situation here where you're chasing a receding target. That's all I have to say by way of introduction.

The Vice-Chair (Mr Tim Hudak): This leaves a significant amount of time for questions, eight minutes per party, beginning with the third party, Mr Silipo.

Mr Silipo: Thank you, Mr Mackenzie, for the presentation. I wanted to just be clear that I understood some of the number crunching that you had done in this analysis. Going back to page 8, where you have the typical impacts by category of the different kinds of cuts, income tax, indirect taxes, I just want to make sure that I've

understood that correctly. You're saying for example, per billion dollars of income tax cut, if you do that through an income tax cut there's a net gain of 10,000 jobs.

Mr Mackenzie: That's right, yes.

Mr Silipo: So similarly, indirect taxes, then, would be 48,000.

Mr Mackenzie: That's right.

Mr Silipo: And then you've taken that analysis on to the last page of your presentation, in showing us, assuming a 30% income tax cut with all the other assumptions you've built in, what the net impact in terms of jobs would be.

Mr Mackenzie: Yes. There are a number of feedback effects that get taken into account when you actually crunch it through, but if I explained all that to you I'd be here for an hour. I'm sure you wouldn't put up with it.

Mr Silipo: No, I think I followed the flow. I just wanted to be clear that my first basic piece—that I had understood it correctly, because the rest flows from that.

One of the things that I find interesting in this whole discussion is that as we talked with the Minister of Finance last week when he was here, he was quite reluctant to share with us, first of all, any kind of analysis that had been done. I don't think we've received anything yet from the ministry officials, even though there seemed to be some indication in a second phase that we might get some numbers, but I haven't seen any.

I guess what we have to go on is the numbers in the economic statement from November, which seem to indicate that in fact there will be some additional job creation, although it's interesting that at the end of the day the rate of unemployment will be about the same. I think the government is claiming that there will be some job growth, although interestingly enough not as a result of the tax cut initially. Can you just give me a sense of how it would be that if we take what the minister said, which is that in the first year and probably even the second year following the tax cut, there would not be much in the way of job growth directly related to the tax cut? Is it conceivable that there could be such an increase in job growth in the third, fourth and fifth year to get anywhere close to 725,000 jobs?

Mr Mackenzie: No.

Mr Silipo: We'd have to be looking at pretty substantial increases in those years, wouldn't we, to get there?

Mr Mackenzie: Yes. As a general rule, when you grind through these kinds of models, about 70% of the impact of any macroeconomic change like this works its way through the system in the first year, and about 30% is distributed over a period of time.

These multiplier effects happen because economic activity circulates through the economy. As you go through these cycles, money gets siphoned out of economic activity; it gets siphoned out of direct productive activity, direct activity that produces employment in Canada or in Ontario and goes off into other things. It goes off into imports, it gets siphoned off into savings, it gets siphoned off into debt retirements, all those kinds of things that don't contribute directly or indirectly to GDP growth. As a result, the effects attenuate over a period of time. So you would get 70% of the initial impact in the

first year and probably 70% of the remaining 30%—it's kind of like depreciation, in a way.

Mr Silipo: So for the government to come close, even, to the 725,000 jobs—I think 725,000 is the figure in the Common Sense Revolution—at the end of their mandate as far as jobs being created, they would have to be relying on things other than the tax cut if they think they can get there, would they not?

Mr Mackenzie: Oh, yes, absolutely. It can't be linked to the tax cut.

Mr Silipo: It can't be done through the tax cut even though the claim is that the tax cut is the major job creation incentive that they're putting forward.

Mr Mackenzie: No, there are a lot of people who spend a lot of their lives studying macroeconomic impacts like this and, as I said, the just overwhelming consensus would be that the pattern of impacts from a general tax cut like that would be distributed generally in the way that I've—different models will have slightly different parameters in them and will produce slightly different distributions over time, but you certainly don't get a kind of buildup to a wave that would be implicit in the notion that an income tax would produce a huge growth in jobs two and three years out.

Mr Silipo: The two charts that you've given us both indicate the median family income being I guess just under \$40,000, if I read that correctly.

Mr Mackenzie: Yes, it's right at \$40,000.

Mr Silipo: That essentially means—again, just checking to see if I've understood these numbers correctly—that half of the families would fall on either end of—

Mr Mackenzie: That's right. Half the families have incomes below that level and half have incomes above.

Mr Silipo: As you've shown, the numbers here—I'm not going to repeat them—would clearly indicate that higher-income Ontarians would end up getting a far larger proportion of the benefit of the tax cut.

One of the things I also—and it's part of the reason why I wanted to be clear about your impacts on page 8, was when I looked at the category of indirect taxes, which I think again, if I heard you correctly, you said would be, for example, the provincial sales tax, is that fair to say?

Mr Mackenzie: Yes.

Mr Silipo: My position continues to be very clear that the tax cut makes no sense at all. If in fact the government were to look at applying the tax cut through the sales tax, then the job impacts would change pretty dramatically.

Mr Mackenzie: Yes, a sales tax cut would have a much different impact.

Mr Silipo: In fact that would result, going through your analysis, potentially, in certainly nothing near the numbers that the government would be claiming, but certainly a positive job impact.

Mr Mackenzie: Yes.

Mr Silipo: There would clearly be still the same number of jobs lost.

Mr Mackenzie: Yes.

Mr Silipo: I'm assuming that part wouldn't change, right, because it's still the same \$5 billion of cuts?

Mr Mackenzie: Yes.

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The Chair: Mr Silipo, that's all the time we have. To the government side, Mr Carr, please.

Mr Gary Carr (Oakville South): Thank you very much for a fine presentation. I may disagree with some of it, but I appreciate the fact you've spent a great deal of time on it. I was just wondering, what would the average income for your membership be ballpark, because there can be ranges, but on the whole what would it be: \$50,000, \$40,000, \$60,000? What would your membership be at?

Mr Mackenzie: The average would probably be in the 20s.

Mr Carr: Twenty thousand?

Mr Mackenzie: Yes.

Mr Carr: So if you were looking at this here, say it's the 20 to 30, and it's tough on your graph to see—

Mr Mackenzie: Sorry. Keep in mind that I'm talking about individual incomes, just to make it clear. My guess is that the average member of our union probably earns about \$25,000 a year.

Mr Carr: Okay, so say \$25,000. If we use this here, you'll be looking at a tax cut of, I don't know, \$400 or \$500, based on your thing there.

Mr Mackenzie: Yes.

Mr Carr: What do you say to your members who say, "Why are you going down in Toronto and telling the government, 'Take \$400, \$500 out of my pocket.'"? How do you respond to your members who say, "By going to Toronto and arguing against the tax cut you literally are taking \$400 or \$500 out of my pocket"? How do you answer that criticism?

Mr Mackenzie: It's a good question. The simple answer, I guess, is that if you look at the impact that they are going to feel, whether it's thinking about the possibility that their kids will be able to go to community college or to university, whether they will be able to afford to do that given the changes that are likely to take place in tuition, when they start thinking about the possibility of user fees in the health care system, when they start looking at the likelihood that there will be user fees applied in a whole range of other areas, numbers like that start to disappear pretty quickly.

The other thing is that we're way past the point in budget cutting already, in my view, and certainly would be way, way past the point if a further \$5 billion had to be cut out of the expenditure system in Ontario, where we can avoid cutting services that are of real benefit to middle-income and lower middle-income families. That's what I say.

Mr Carr: One other short question. As you know, your members have gone through tremendous change over the last little while. They are competitive with the world. They produce more with less. They've had to do a lot of restructuring that we're now asking the public sector to do. How do you also answer the charge of your members who say: "Look, we've had to restructure. We're doing more with less. We're producing. We are as efficient as any people in the world in creating our products. All we're asking the public sector to do is be as efficient as we've had to do"? How do you answer that charge of the people saying, "All we are doing is doing

the restructuring that the private sector has had to do," whether you're a steelworker, whether you're a clerk in an office, whether you work in an insurance company"? How do you answer that charge when your members are saying, "Look, the public sector has to do what we've had to do over the last few years"?

Mr Mackenzie: There are a couple of premises in your question that I guess I'd like to explore. One of them is that you can draw an easy analogy between services that are produced in the private sector and public services. It's in the nature of many public services that the only way you can measure the output from the public services is by looking at the inputs into the public service, so there are some difficulties with the analogy. I don't think there's a whole lot of disagreement with the notion that the public service could be made more efficient. I think there is a pretty fundamental disagreement with the notion that in order to do that you have to basically destroy the foundation of public services that we provide. You've given me an opening to voice another beef that I've got.

Mr Carr: Sorry to interrupt. If I could—

Mr Mackenzie: Actually, I'd like to get this point in if I could. When we've gone through restructurings with major employers, one of the things those employers has done is they have recognized their community responsibility and they have bent over backwards to be generous in adjustment for the people who are affected. Granted, we've dealt with employers who have basically put the notice up on the bulletin board on Friday and guys show up at the gate on Monday and there's a padlock and it's all gone. So there's a spectrum there. But certainly the way the government's dealing with the impact of "restructuring" on its own employees isn't anywhere near the far positive end.

If I may, I think one of the most extraordinary things this government has done, in dealing with the adjustment impacts on its own employees, has been to remove by legislation a pension right that is available to every private sector employee by eliminating the grow-in benefits in the Pension Benefits Act.

Mr Carr: As you know, your connections to the previous government were very close. If some of your solutions that you talked about were as easy to do and as simple, how come the previous government didn't do it?

Mr Mackenzie: The previous government wasn't proposing to cut the income tax by \$5 billion and match it with expenditure cuts. Since you've put the question politically, let me put my response politically. It seems to me that a government that was serious about meeting its budgetary deficit target would not be proposing to undermine the revenue system to the extent of \$5 billion and match that with expenditure cuts that would have an enormous negative effect on the economy.

Mr Carr: I guess our feeling in looking at this is very simple. What we're doing in the \$4 billion or \$5 billion that we're giving back to your members, in letting them spend the money rather than having the government spend it for them, is the exact amount that the previous government had increased taxes over the last few years. So what we are doing is saying to your members, "We're going to let you spend the money, not have the govern-

ment spend it for you." I suspect most of your members would say: "You know what? We kind of like that idea."

Mr Mackenzie: I'm anxiously awaiting the letters from the Steelworkers that occupy this part of the scale saying how valuable they think the tax cut is.

Mr Spina: What about the ones earning in the \$60,000 range?

The Vice-Chair: Mr Spina, Mr Carr has the floor.

Mr Carr: Looking at the situation you've got, the previous government increased spending by 21% in four years. They spent double, triple the rate of inflation when you look at it. Your members have had to restructure and do more with less. How do you handle that argument? Regardless of the social contract, the bottom line is spending, and the previous government, which you were very close to, increased spending 21% over four years at a time when your members were doing more with less. How can you not see that your members are out there saying: "To heck with it. You know what? The government has got to do the same types of things that we've had to do, and they have to get in line with everything we've had to do on our own shop floor"? How do you handle that argument?

Mr Mackenzie: If that's all that was happening, if all that was happening was that the government was delivering the same service to people more efficiently, I don't think you'd have a lot of complaints out there. But that's not what's happening. What's happening is that there are cuts in service that our members on the shop floor will see directly, and if they don't experience those themselves, there's going to be somebody who works at the punch press next to them or somebody who's typing at the workstation next to them who is now starting to have real trouble getting to work on time because they've got to drop their kids off in two different places because they can't find child care because the subsidies have disappeared from the child care centre they used to take them to and they've had to close down, whether they got a subsidy personally themselves or not.

Mr John Gerretsen (Kingston and The Islands): Thank you very much. It's very interesting; perhaps the \$10 billion that we have to cut out of the deficit in order to come to a zero balance may have something to do with restructuring, but certainly not the \$5 billion that we're talking about here as far as the tax cut is concerned.

The two charts that you have here are very interesting. During the Bill 26 debate we heard over and over again from the government members that since most of the families earned \$50,000 or less, therefore they would be getting most of the tax benefit with respect to a tax cut, which is absolute insanity as far as I'm concerned. Your figures clearly show that half of the \$5-billion tax cut, \$2.5 billion, goes to families with incomes of \$90,000 or more. These are only 13% of the families.

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What percentage of families are there below the median, or what percentage of the total income tax cut would go to the families that make \$50,000 or less? Have you done any calculations on that?

Mr Mackenzie: I haven't done the calculation. I've got the stuff here; I could figure it out quickly enough.

But I don't think you'd want to sit here watching me play with the calculator.

Mr Gerretsen: From the figures here, it would look as if it may be about 20% of the total, just from looking at the charts, or even less than that.

The question I have really deals with page 8 and this notion that the \$5 billion in tax cuts going back to the people will therefore be reinvested in the economy and it will make everything take off etc. You've sort of refuted that on page 8, because expenditure cuts have a much greater effect than revenue cuts as far as the jobs in Ontario are concerned. Would you agree with me that people who are getting the tax cut at the higher levels basically have a choice as to what they do with that money? Some may reinvest it in Ontario in one way or another, some may buy consumer goods, but some may also just decide to take a trip to a foreign country or indeed just bank the money. On the other hand, people at the lower end, when they no longer have the expenditures to spend, whether it's through the transfer to persons or in goods and services on the expenditure side of things, those people pretty well utilize all of their money by putting it all back into the economy directly by just making ends meet and paying their day-to-day expenses. Do you have any comments on that?

Mr Mackenzie: What you've done is basically described through examples what the stats show. The reason why income tax doesn't have the kind of power that expenditures do or that other kinds of tax cuts do in generating economic activity is because, to use some economist lingo for a moment, there are a lot of leakages out of the expenditure system. "Leakage," when you're looking at it in macroeconomic terms, means spending on imports, spending on travel, spending on debt reduction or simply saving. All of those things are leakages out of the flow of expenditures that reduce the impact.

One of the reasons—it's not the only reason—why sales tax cuts have a more powerful impact on the economy than income tax cuts is precisely because sales taxes make up a much larger proportion of the income or are disproportionately paid by people with lower incomes. As a result, in relative terms, they have a more powerful impact. You're right: People with lower incomes tend to spend a higher proportion of their incomes.

Mr Kwinter: Thank you very much for your presentation. It's going to be very useful. As you say, all economists have different viewpoints, but it will be good as a benchmark to see how it compares, and we can see those who agree or those who disagree with you. I think it's useful from that point of view.

In your modelling, have you taken into account that the \$5 billion in the tax cut is borrowed money, and what impact that has on what we're doing?

Mr Mackenzie: No. As I said, I didn't look at feedback effects into the provincial budget. That means that it doesn't take into account the fact that if you take that many jobs out of the economy, other government revenues will be negatively affected. It also doesn't take into account the carrying costs. Assuming that this is borrowed money we're dealing with here, it doesn't take into account the accumulated carrying costs which, given the vicious nature of compound interest, can get pretty big.

Mr Kwinter: Also, in your modelling you are trying to anticipate what the drag is going to be on the Ontario economy. Is there a correlation in the fact that the federal government is going to be acting as well? Ontario is not in a vacuum. Not only that, but the largest number of federal employees also live in Ontario, and the federal government is going to be doing similar things. I don't expect they're contemplating a tax reduction, but they're certainly going to be contemplating cuts in services. Again, that is going to have the greatest impact in Ontario. How does that relate?

Mr Mackenzie: This analysis is independent of that, but obviously if you are looking at the next couple of years in terms of assessing the performance of the Ontario economy, you'd have to be very concerned about the impact of the cuts that are already in the system and working their way through in Ontario and the cuts that are in the system and working their way through at the federal level.

In fact, one of the things that if it weren't so serious I'd find a bit amusing is all these people who are scratching their heads, wondering why it is that economic growth in Canada is falling short of people's projections. All of a sudden it dawns on people, "Well, I guess when you've got governments cutting spending all over the place and laying people off, that has a negative effect on the economy." The light goes on.

Mr Kwinter: Do we still have some time?

The Vice-Chair: One more question.

Mr Mackenzie: Ask me about payroll taxes. I had something I wanted to say about payroll taxes.

Mr Kwinter: No, I'm interested in your analysis of the value of the cut, using the one assumption that it's going to be \$5 billion. There is a contradiction. There is a contradiction in what the government has been saying, and what happens if it is the \$6 billion?

Mr Mackenzie: If the change actually was the letter of what's in the examples that generated the charts that some people in the room used at the door and other people in the room certainly were confronted with at the door in what Bill Davis used to call "the great consultation with the people last year"—some of us remember these things. There's no question that if one of the letters of the promise were adhered to strictly, namely the 58% to 38%, all of these economic impacts are that much bigger.

The Vice-Chair: Thank you, Mr Mackenzie, for your presentation. Have a good day.

This committee will now recess for its lunch. We'll resume proceedings at 1:30 this afternoon.

The committee recessed from 1228 to 1332.

C.D. HOWE INSTITUTE

The Chair: This afternoon we have the C.D. Howe Institute, Bill Robson, senior policy analyst. Welcome.

Mr Bill Robson: Thank you for the invitation to be here. I'm not sure what you've been subjected to already by people who have sat in this chair. I'm not here under the impression that you're eager to be lectured to, because you've probably been lectured to a lot already. With that what I hope is a rather graceful introduction for

not delivering an integrated presentation that would make a good lecture, I thought I would come and just cover off three things, or present three angles, if you like, that might be helpful in thinking about Ontario's situation.

First, a quick take on why it is that worrywarts like me think that budgetary control might make us feel better. Second, a bit of a national political note on making sure that if we do behave ourselves better in terms of fiscal policy, we will actually enjoy the benefits of doing it. Finally, some thoughts, and they're not original with me, on what international experience might tell us about how best to get where you want to go in terms of controlling the budget. I will watch my watch and try and make sure I don't run over half the time that's available.

First of all, why might deficit reduction make us feel better, and not necessarily in the very long run, when we're all dead, but in the shorter run that matters politically and also in terms of what people are looking forward to? The short answer to that is that you get rich by saving. In private life, people know that. If you look at private sector saving rates, households and businesses added together over the years, they've consistently, after allowing for some ups and downs, saved about 8% to 10% of net income in Canada on the whole and a little bit more than that in Ontario.

I've provided a handout. It's pink, in celebration of the day. If I can direct your attention to the first chart, what I've done there is shown the situation for all of Canada. For reasons that I'll get into in a moment, it's awkward to look at this sort of portrayal of the situation with regard to a single province, especially Ontario.

But what this shows, if you look at the top line, that's private saving. It got pushed up a little by high-inflation years; in high-inflation times people tend to save a little more to make up for the fact that a lot of the assets they own are having their purchasing power eroded by inflation. But if you look through that, you can see that on the whole, private sector saving over the course of 45 years has been in not that broad a range, in terms of 8% to 10% of income.

That's a rather bloodless way of looking at it as a percentage of income. If we were to put it on a human scale, the typical Canadian family of four during the first half of the 1990s generated a net income of about \$87,000 and saved about \$8,000 of it, and the typical Ontario family of four, actually being a little bit richer and being a little bit more saving-inclined, saved about \$9,000 every year. If that were the end of the story I wouldn't be sitting here telling this story, but when you look at the wealth of a society as a whole, what the private sector, the households and the businesses, do is only part of the story. There's also what governments do.

The bottom line on this chart shows the contribution, or lack of it, that governments have made to national saving over this same period. I've inverted the line so that government additions to saving are below the line so you can add them together and see that entire shaded area, the total saving in both the private and the public sectors. Up till the mid-1970s, governments in Canada added considerably to national saving by running large surpluses when you look at things on this national accounts basis. But since then, they've run deficits.

During the 1980s, on average, governments absorbed about one third of every dollar that was saved in the private sector, and during the 1990s it got twice as bad, with governments absorbing about two thirds of every dollar saved in the private sector on average. If you think of this again on a human scale, this typical family of four with its \$8,000 worth of saving at the end of the year—perhaps it puts it in Canada savings bonds or that saving happens inside a pension plan. Little does that family know that governments are converting about \$5,000 of that saving into consumption. When you think of the family in terms of its total claims on the resources of the country, the increase in its wealth isn't \$8,000, it's only \$3,000. What you might think of, then, is that thanks to the public sector over the last few years, Canadians generally and Ontarians particularly have developed what I might call a consuming passion. That's what the second chart in this handout below the one I was just referring to shows. A solid line for Canada, a dashed line for Ontario shows consumption as a proportion of income.

We hear a lot of rhetoric about worrying about future generations and so on. I would submit to you that when you see consumption like that, people are clearly not that worried about future generations in any realistic sense. They're living for the here and now.

I want to emphasize one other thing that I think comes out of this type of analysis. This sort of consumption here is the highest that it's been in Canada since the Second World War. You hear a lot of people who are focused on next quarter's GDP growth or what have you, saying things like, "Until the consumer starts to spend more we're dead in the water." I just want to show this chart to make the point that whatever ails us, it sure isn't lack of consumption. We're consuming to beat the band, and I think that is a very important part of the story of why we don't feel better right now. What does happen when you consume more and more of your income? The answer is that you get rich more slowly, and if you consume enough you start to get poorer.

If you turn to page 2 of the handout, I think a key part of the story of why the 1990s has been such a miserable decade in Canada and in Ontario is told in these two charts. The top one shows how quickly national wealth has grown in real terms over the decades. As our saving rate as a country has fallen, our ability to accumulate wealth has fallen. The lighter-shaded bars that show it on a per-person basis indicate that in the 1990s we've been saving so little that national wealth has scarcely even grown in line with population. As a result, if you look at the bottom chart, which looks virtually identical, growth in real incomes per person, we are not enjoying rising living standards because we aren't adding to our wealth.

If we want the Canadian typical family of four to see rising living standards in the coming years, what we have to do is get our saving rate up. That is not primarily a private sector problem; it's a public sector problem, and it means we have to reduce the rate at which deficits are cutting into the saving that's being done by households and businesses. In this context, I want to just add one footnote about tax cuts.

I'm not opposed to tax cuts. They fit into a determined plan of budget control better than the arithmetic alone

would suggest, for reasons that I'll touch on in regard to international experience. But when you think about this economic situation, whatever justification tax cuts may have, it is most emphatically not that they might boost consumer spending. That is the last thing we need. We don't need more consumption in this economy. We need more work, we need more investment, we need more saving.

1340

Having talked a little about the national economic situation, let me just mention a second topic that I think is important, looking ahead for Ontario. If we get out act together in this province, if we start to behave ourselves a little better on the fiscal front, are we going to actually see much benefit from it?

Well, I'll be a typical two-handed economist. There's good news and there's bad news here. Here I'm thinking of the old line that, "The economist's lag is the politician's nightmare."

The sort of relationship I'm outlining here doesn't say that if we cut deficits, we're going to see the economy rear up on its hind legs and charge ahead creating jobs at the rate of 100,000 new jobs a year. But it does hold out the hope for improvement in the short run for the same reason that if you are a family and you saved a little bit more this year, you'd have a higher income next year. It's straightforward arithmetic. If we improve our saving performance, we will see higher living standards, not in the indefinite future but in the fairly short run.

But one of the problems that we face in Ontario, and one of the reasons that I can't show as effectively a picture of Ontario's situation, is that a lot of what looks like saving in Ontario is in fact surpluses that the federal government runs in Ontario which are then offset by very large deficits elsewhere. We have the federal government shifting a lot of Ontario saving out of the province. Therefore, although Ontario's saving performance has over time been quite a bit better than the national average, we haven't felt much benefit from that in terms of our living standards. A lot of the saving, as I say, does not get invested for the benefit of Ontarians.

At the risk of appearing in this setting a bit of rabid Ontario First-er, I don't think the transfers out of the province that are being conducted on the scale they are by the federal government is good for Ontario. We save, but we don't get richer. I actually don't think they're that good for the recipients either, by and large, and I'm not sure they're good for the country. If the idea of some of these things is, for example, to bribe Quebec into staying in Confederation, I'm not sure that the logic of the situation shows that's working very well.

The other thing they do is that they are radically distorting the cost in terms of taxes of \$1 of government programs in one region of the country versus another, which is one of the reasons we often seem to have debates over fiscal policy in this country that are radically disconnected. If you're in Newfoundland, you pay 50 cents for a \$1 of federal government programs. If you're in Ontario, by now you're paying in the neighbourhood of getting on for \$2 in some years, and we're not speaking the same language when we talk to Newfoundlanders about what we want from the federal government.

In my handout, I took a rather rough cut at showing the scale of this problem on page 3. Some of you may have seen a study that was commissioned from Mike McCracken of Informetrica by the previous Ontario government, which looked at a variety of measures of ways in which the federal government was shortchanging Ontario. I wouldn't come out the same place that study did in terms of insisting that federal transfers should be larger and more generous to Ontario. But in the same spirit of that analysis, if you look at how the federal government taxes and spends in terms of its program spending in Ontario versus the rest of the country, you can see that the federal government runs consistent large surpluses in Ontario on that primary budget, excluding interest payments, and substantial deficits in the rest of the country. Ontario is shipping over its borders large amounts of saving, large amounts of funds every year. As we are saving a lot, but we're not enjoying what we might.

It's too tangentially related to the proceedings of this group for me to go into this topic at much length, but I worry a lot about paralysis in Ottawa with regard to serious rethinking about the way the Canadian federation works. It's obvious why there's such difficulty in Ottawa confronting the problem.

What surprises me a little more is to see Ontario not taking a more active line, pushing for reforms to the structure of the federation based on the idea of subsidiarity, locating things at lower levels of government and greater fiscal accountability at the lower levels of government. I think that would be a very salutary thing. I think it would help to shake Ottawa up a little bit. I think there are a lot of other provinces thinking the same way, and from the point of view of being a bit of a rabid Ontario First-er, it would have the important side-effect that we might succeed in reducing this ongoing transfer of money out of Ontario that, as I say, I don't think is good for Ontario and I don't think is good for the rest of the country either.

Finally, and I'll be quick here, an important lesson from abroad: If you think that worrywarts about deficits have a point and you think it would be a good idea for us to raise our saving rates, cut down on these deficits and try and add more to our wealth each year, the question is, is a program such as the one we are now seeing the outlines of in Ontario, the Common Sense Revolution sort of program, the right way to go?

As I say, these thoughts aren't original with me. I commend to you the whole article, for anyone who has a taste for this sort of thing, but failing that, the summary I included on the final page of my handout of an article published late last year in the journal *Economic Policy*—it's a European journal—by some Italian political economists who drew on the experience of 20 OECD countries over 30 years and asked, among other questions, what it is that distinguishes successful budget consolidations? They defined that principally as a budget consolidation that succeeds in stabilizing and then reducing the debt relative to the size of your economy after three years. What is it that distinguishes those from unsuccessful fiscal consolidations?

On a sobering note, I should mention that the unsuccessful adjustments outnumbered the successful ones by a wide margin, although one of the difficulties they had in this study was that these things are happening more and more frequently around the world as time goes by and a large number of them were too recent to call.

In the ones they were able to have a good look at, they found that unsuccessful adjustments typically involve large tax increases, tax increases that were roughly two and a half times as large as the spending cuts. They involved a very light touch when it came to government transfer payments and government wages on average, and they found that cuts in infrastructure spending tended to take the major part of the hit.

Successful adjustments were quite different. Spending cuts were about four times as large as tax increases. Transfers and government wages tended to take a little bit more than half the hit. What was a surprising thing that fell out of the study that they hadn't been looking for and wouldn't want to make too much of because it's only true on average, nevertheless it's interesting that direct taxes on households tended to fall in the countries where successful fiscal adjustments took place.

I won't draw extensive parallels either with the experience in Ottawa during the 1980s or with what we might see in Ontario right now, but there are some lessons here that are important to learn.

One thing in terms of the political flavour of it that was interesting was that both left- and right-wing governments were quite well represented in terms of successes; in fact, left-wing governments somewhat more so in terms of both number of attempts and the success they had. Centrist governments tended not to have any successes in this analysis.

The paper, unfortunately for this group perhaps, leaves the question of what the effects were on re-election of the governments that did them for future research. However, they do observe, in looking at the economy, that growth tended to be higher and unemployment lower following successful adjustments, and to be fair, that may be because economic circumstances helped out a little bit. My own observation on this score is that practitioners of high-deficit fiscal policies in Canada over the last few years have not generally been rewarded by voters.

That is the end of my non-lecture. I hope there's time for comments and questions and personal attacks.

The Chair: Thank you very much, Mr Robson. We'll try to avoid personal attacks. We can start with five minutes each. We'll start with the government.

Mr Wayne Wettlaufer (Kitchener): Thank you, Bill, for your presentation. It's good of you to come today. I'd like to follow up what you said by putting on the record—we've had a number of discussions in the last couple of days about the success or non-success of New Zealand. I have some figures here which have been released by the Organization for Economic Co-operation and Development. The unemployment rate in New Zealand as of September 1995, which is the latest figure available, was running at 6.1%, and the OECD's 1994 economic survey of New Zealand shows an improvement in the general government budget balance between fiscal 1990-91 to 1993-94. The budget balance went from a

deficit of 3.5% of GDP to a surplus of 0.6% of GDP in 1993-94. According to the OECD Economic Outlook in December 1995, the New Zealand government experienced a surplus of 3% of GDP in the 1995 financial year which ended in June 1995.

The outlook states:

"The government has reiterated its conditions for future tax cuts, namely, net public debt to be reduced below 30%, no immediate risk of a return to budget deficits and no risk of strong balance of payments or inflationary pressures emerging. On current government projections, the fiscal objective should be met during FY 1996-97, suggesting that, subject to macroeconomic criteria being fulfilled, tax cuts could be implemented in the second half of 1996."

Gross public debt as a proportion of GDP peaked at around 77% in 1987. It declined sharply to the 60% to 63% range until 1994, when it was forecast to fall to around 55%. The net debt position reached 51% of GDP in 1992, 42% in 1994—according to the 1994 OECD Economic Survey, which is the latest—and is projected to fall to under 40% in 1995 and under 30% in 1997.

"In addition, New Zealand was ranked 19th"—this is as of September 1995—"in Euromoney's ranking of countries for investment risk purposes." Canada was 14th. "New Zealand's ranking has improved four places from September 1991, when it ranked 23rd. By contrast, Canada's standing slipped 11 places, from third in 1991 to 14th in 1995."

1350

Bill, what would the effect of our actions be, if you could project that? Would it be similar to New Zealand's?

Mr Robson: New Zealand's situation—a couple of things occurred to me as you were talking about that. First of all, they had economic problems that I think put ours in the shade, and the adjustment they went through was particularly painful. Certainly the performance of the economy and the immediate aftermath of the debt crisis was pretty bad. However, interestingly from a political point of view, New Zealanders have obviously developed a very strong taste for that sort of thing because governments have been consistently re-elected on platforms of doing more of the same.

In terms of the macroeconomic stabilization and so on—that country did not form part of this survey because they have crummy data—it would certainly fit the bill in a major way. But the one thing that more attention needs to be paid to in New Zealand's case is some of the efforts they made in terms of reforming government services.

One of the things I'm a little concerned about as I look around Ontario—and I won't hide that I have a particular interest in public education—is that I don't see where the positive agenda is. In New Zealand they went for charter schools in a big, big way. They freed up the system. They really lit a fire under public sector service delivery in a number of areas. I think one of the reasons the reforms in New Zealand have developed such a strong constituency and have proved to be so popular is that the quality of a lot of the services provided by government

improved in terms of their responsiveness to people's wishes.

I think there's a lot to be learned from New Zealand, and I think it doesn't only go to the macroeconomic stuff that we often hear about but also goes to a lot of what was done on the service delivery side. I would again mention education as a key area where they really shook up the system and I don't think they'll ever go back to the way they were.

Mr Kwinter: Thank you, Mr Robson. I appreciate your presentation. I am really interested in your observations that we don't have a consumption problem. To my mind, and I've been following this issue very closely, obviously, the major impetus for the tax cut is to get people spending so they can kickstart the economy. You're saying that the last thing we need is more people spending and not saving. Could you just expand on that?

Mr Robson: I think it follows pretty straightforwardly. If you buy my analysis that you have to save in order to be richer and to have higher incomes in the future, more consumption isn't the way to go. What strikes me about private sector saving is that it tends to be a reasonably constant proportion of income as time goes by, and therefore I focus on the public sector as the major source of the problem. But if anybody suggests to me that what we need from a tax cut is more consumer spending, I'd say that's not what we need at all.

If we're going to see benefits from a tax cut, and I think there are benefits to be had, it'll be on the side of the incentives to work and to save, and not when it comes to consumption. For one thing, as we know from looking at the proportion of people's spending that is imported from outside the province, a lot of extra consumer spending is simply going to leak away across the borders right away. Second, it's the wrong sort of incentive. We've been consuming in a big way over the last few years and I think the evidence is in, in terms of how much good that's done us.

A lot of this focus on more consumer spending comes from a very excessively short-term preoccupation on the part of business economists and government economists on what next quarter's GDP growth is going to be like. You add up consumer plus government plus exports minus imports and you say: "There's GDP growth. If it's higher next quarter, I'm happy; if it's lower next quarter, I'm not."

I'm dubious about the size of those effects to begin with, but I think that sort of short-term thinking is entirely inappropriate. If there's any justification for a tax cut, and I think there are justifications, I would not put consumer spending anywhere on that list. If I thought that was all it was going to do, I'd be opposed.

Mr Kwinter: I think it's a little perverse in that the government is saying: "The reason we have to take these tough economic stands is because we have been overspending, we have not got our fiscal house in order. We've got to cut back on our expenditures, we've got to reduce the deficit, but by the same token, we're saying to you as a citizen that we want you to do the opposite. We want to go out and borrow money and give it to you so you can go out and spend it. We encourage you to spend

it because by you spending the money we've borrowed, it's going to help our economy grow."

Is that an evaluation of what you—

Mr Robson: I think the big damage that income taxes do to the economy is when it comes to incentives to work and incentives to save and invest. Again, I think that's where the benefit will be. I can only repeat myself: If I thought all it was going to do was boost consumer spending for a couple of quarters, I would argue very strongly against it. I don't think that's what the justification for income tax cuts is.

Mr Kwinter: One of the other things I'd like to get your comment on, because the C.D. Howe Institute, of course, is a financial institute, have you done any calculations on what the drag on the Ontario economy is going to be as a result of federal actions that we have yet to see in the budget that's coming up?

Mr Robson: It's an odd thing about real life. When you look for correlations between government spending, changes in fiscal balances and the growth of the economy, they are very, very hard to find. Most economic models, including the ones that are still very common in textbooks, do stress fiscal drag as a very important fact of real life, that when governments cut their spending or lower their deficits, it's going to hurt the growth of the economy. I can't demonstrate it, I didn't come with all sorts of charts and things, so I will just have to assert for the time being that you can look through the correlations of the data until your eyes ache and you can't find those things.

There are a number of reasons that might be the case, but one of them, I think, is that when you look at very major changes in fiscal policy, people's expectations about the future are very important. Among the fiscal episodes that were looked at in this paper that I mentioned earlier and some others that have been done looking at the experience of European countries, there are some striking examples of countries where very large budget consolidations were done and the private sector economy took off like a rabbit.

There are a lot of reasons that might have happened. One of them is that monetary policy often eases up when the economy starts to weaken, and what you lose on the fiscal side you gain from the monetary side. That's a possibility. The other possibility is just that people's expectations about the future change very radically when they realize that the future won't be like the past. One of the reasons people are justified in thinking that a tax cut might be a good thing is that at the moment there is enormous pessimism among the population that the future will be any different from the past. Clearly, the past doesn't stand out in people's minds as having been a very good time.

From that point of view, I think it's important not to rely too heavily on the models where government spending plus consumer spending etc etc adds up to GDP growth, because real life doesn't turn out to support that very well. There are examples where governments have consolidated their budgets and the private sector economy has just continued to roll on quite well. So I'm not tremendously worried about that.

If you think those effects are big, the appropriate focus of your attention would be on the Bank of Canada. If there is a big hit on the economy as a result of governments cutting their spending and the economy starts to weaken, then the question is, we've got inflation targets in place. If monetary policy doesn't ease, we're going to have deflation. They're going to miss those targets, the economy's going to be weak, and therefore you would expect monetary policy to do something to offset that. I'm giving a bit of a multifaceted answer here. If you think those effects are important, look to the Bank of Canada. I'm not so sure they are that important.

Mr Silipo: I want to try to look at the fiscal situation from what I think is the perspective that the average Ontarian would look at it, which is in terms of what it all means for them and their families, and particularly, are they going to have a job as a result of what is going on? Given the high level of unemployment, given the projections out there for the next couple of years, that likely won't get much better. You said that your view is that the tax cut in and of itself isn't going to generate a lot of consumer spending. The government is saying that it is and that that's what's going to create the jobs. What is the sense of the tax cut, as you see it, if it's not going to create the jobs?

1400

Mr Robson: One of the things that is a strange result in economic analysis is that when people do estimates of how much income taxes and other types of taxes cost the economy for every dollar of revenue raised, the numbers they get turn out to be huge. There is a gentleman at the University of Alberta, Bev Dahlby, who does these calculations, and he's not any kind of radical supply-sider. He uses very middle-of-the-road estimates of how responsive people are in their work effort to the taxes they pay. He figures that federal income tax rates are imposing a cost of about 40 cents on the dollar for every dollar raised—in other words, a dead-weight loss to the economy, no benefit to anybody—in addition to the dollar that's taken from one person's pocket and put into somebody else's. Looking at provincial income tax rates, depending on what province you're in and whether you're looking at general taxes or surtaxes, he calculates anywhere from that 40-cent figure up to an extra dollar or even a little bit more in some cases.

You might think that an effect that size would be very noticeable in the short run, and perhaps it is. After all, in Ontario we saw some pretty substantial hikes in personal income taxes over the last few years that didn't bring in anything like the revenues that were expected. Why is that? It may well be because in fact people's decisions as to whether to work, how much to work and whether to declare their income were strongly affected by those things, but I think also what happens is that over time those effects come out in a very big way, even if overnight you don't see much.

I think that's where the real importance of income taxes is. They are anti-work. An individual's decisions as to whether to work, where to work, whether to declare income are very strongly influenced, especially over long periods of time, by the taxes that are imposed on that income. I think that's what the key benefit of lower income tax rates is.

Again, I'm repeating the point I made earlier: I don't think consumer spending is at issue here. That is a very, very short-run consideration that probably isn't even all that big in real life as opposed to certain economic models. It's the incentive for people to come to Ontario, work in Ontario, work longer hours, work in the above-ground economy as opposed to the underground economy that's the real issue.

Mr Silipo: Are you saying that will create the jobs?

Mr Robson: Yes.

Mr Silipo: And it will create the range of jobs that the government is projecting?

Mr Robson: I don't know what the government is projecting.

Mr Silipo: It's projecting 725,000 jobs in the next five years.

Mr Robson: Inasmuch as some of that is supposed to come from higher consumer spending, I'd be dubious about that. But what we do know from experience is that as income tax rates have gone up, we're not seeing the kind of revenue coming in that you would expect from that. That's an indirect but nevertheless a very important indication that in fact something is happening to people's work effort and to their willingness to declare their income as those rates have gone up. Having experimented over a number of years now with raising income tax rates, raising income tax rates and raising income tax rates again, and really not getting where we thought we wanted to go with that, I think it's well worth a shake trying to lower them.

Now I'm ambivalent on the tax cuts because I've already called myself a worrywart about deficits and the arithmetic is obviously very unfavourable. When you're paying interest rates as high as we are now, a dollar forgone now means an extra burden next year that's rather difficult to carry, as we know from experience. But to the extent that in fact what you're seeing happen with the taxes is a discouragement of work effort and a discouragement of people's willingness to declare their income, you can guess—and you're going to have to be careful about how brave you are in making these assumptions—that the cost in terms of revenue that you lose from those tax cuts may not be quite as big as you expect just by multiplying the rate times the base. After all, on the way up we didn't see increases in revenue of the sort that were predicted; I bet on the way down we don't either.

The Chair: Thank you very much, Mr Robson. We certainly appreciate your presentation as well as your enthusiasm for the committee today.

ONTARIO PUBLIC HEALTH ASSOCIATION

The Chair: The next group to come in is the Ontario Public Health Association. We welcome them this afternoon on Valentine's Day; we note the red dress.

Ms Mary Martin-Smith: Thank you. It was planned.

The Chair: We have 30 minutes to spend together. We will hear your presentation and then perhaps we'll go on with questions, if that meets with your approval. Would you identify yourself please for Hansard at your first opportunity.

Mr Winston Miller: I am the president of the Ontario Public Health Association. Allow me to introduce my colleagues. To my immediate right is Mary Martin-Smith and she is the president-elect of the Ontario Public Health Association. To Mary's right is Peter Elson and he's the executive director of the OPHA.

We wish to thank you for providing OPHA with the opportunity to address the committee this afternoon. It's exactly one year ago today that I recall being here, and we can truly say what a difference a year makes. We have noted that in this province what we have experienced over the past year has created a climate of both crisis and opportunity.

At the outset we would like to acknowledge that the fiscal crisis facing Ontario needs action to stem the deficit tide for the benefit of our families and communities both now and in the future. Having said that, we just want to indicate that any of our comments recognize the context in which the current government is taking certain steps.

First of all, I'd like to just indicate that the Ontario Public Health Association agrees with the view that major restructuring of Ontario's health care system needs to take place in order for Ontarians to be able to continue to afford the high quality of health care we currently have.

We think, however, that a very critical piece of that is that there must be a built-in evaluation of the cost-saving mechanisms. This is within the various sectors and also within any mechanism which has been initiated by the government, such as the Health Services Restructuring Commission. We think it's critical that we make sure that any savings that are proposed are real savings.

Along with cost savings, we feel that the future of the health system must be equitable, accessible and responsible to consumers. We also feel that a coordinated and comprehensive program of appropriate services is important. By saying that, we're indicating that simply using cost savings as the focus is not the only way to go. We do need a balanced approach.

Some of the factors we think need to influence funding decisions: We need to take into consideration population, density, demographics, size and so on. Whenever cuts are contemplated, we need to take other factors into consideration.

OPHA wants to acknowledge and note some recent steps which have been taken by the government: some of the amendments to Bill 26, such as the acknowledgement of existing structures, such as district health councils, to balance provincial and community health planning interests; the preservation of the sanctity of the health provider-patient relationship; and the acknowledgement of the role of existing community volunteers and services in the plan for long-term-care reform. We've also noted some attempts to reinvest some savings in such areas as advanced paramedic services and community-based or in-home dialysis care.

We have some specific recommendations that we'd like to offer.

We strongly recommend that in the annual report of the Health Services Restructuring Commission there be an evaluation of the cumulative impact of the proposed

changes on the subsequent economic and physical health of all members of the community.

We also recommend that funding decisions should be made which take individual community health service needs into consideration.

We encourage the government to continue to take existing planning and service structures and voluntary organizations into consideration when making health system restructuring decisions.

Now I'll defer to one of my colleagues to just continue to walk us through this.

1410

Mr Peter Elson: The impact of social and economic policies on the health of Ontarians is a key area of concern to OPHA. OPHA holds the position that a more equitable distribution of the province's financial resources is needed to ensure that the fundamental determinants of health—food, shelter, healthy growth and development, employment, education and income—are within reach of everyone.

There is danger that the recent 22% reduction in social assistance rates will result in even greater socioeconomic inequities in the health status of Ontarians. In particular, the health and wellbeing of children, one of the largest groups relying on social assistance, can be expected to suffer. Recent statistics on the use of hostels show increased use due to economic rather than emotional or physical distress.

Infant mortality rates are also a recognized indicator of population health. Babies born to parents in the poorest neighbourhoods are twice as likely to die before their first birthday as babies born to patients in the richest neighbourhoods. That's not to diminish the strides which have been made in decreasing infant mortality, but while population averages may provide solace to some, they're of no comfort to public health staff who deal with people, not averages.

Neither is this phenomenon restricted to children. The death rates for men between the ages of 65 and 70 decline steadily as the level of earnings in the years prior to retirement increases. The death rates at the lower end of the income scale were about twice as high as the rates at the upper end of the scale. Low-income people also have more years of ill health than high-income people. These results are based on a study which covered half a million people, and for each individual, data from almost a quarter-century of their lives have been drawn upon. The evidence that health is determined by income distribution is clear.

Therefore, taxation policy has a profound impact on health. A progressive system of taxation is one of the most important instruments by which governments can ensure that everyone has an adequate level of income to meet their basic needs. Unfortunately, the present tax system in Ontario is regressive and increases disparities. In addition, tax reforms initiated at the federal and provincial levels have resulted in a significant shift of the tax burden from corporations and high-income earners to middle- and low-income groups.

OPHA is concerned that the proposed 30% reduction in the current rate of provincial income tax will only serve to widen the existing socioeconomic disparities in

the health status of Ontarians. In addition, OPHA feels that the proposed provincial income tax reduction will impair the government's ability to bring the deficit under control and limit its ability to meet stated commitments to health and education spending.

Therefore, OPHA recommends that the government not proceed with the planned cut in income tax. If, however, the government chooses to pursue this course of action, OPHA recommends that the tax cut be progressive so the bulk of the reduction will alleviate the tax burden of low-income and working families in Ontario.

Ms Martin-Smith: OPHA believes that an investment in the future is grounded in an investment in today's children. Nowhere is the impact of the determinants of health more evident than in the health of a child. A 20-year longitudinal research study published in 1994 is a case in point. A pre-school enrichment program was provided in the 1960s to low-income children at risk of failing in school. Compared to a control group, they had significantly higher earnings, were more likely to own homes, completed more education, were less likely to have used social services and had significantly fewer encounters with the law. The researchers concluded that over the lifetime of the participants, the pre-school program returned to the public \$17.16 for each dollar invested.

For reasons like this, OPHA members believe that all Ontarians should have the means to accessible, affordable, nutritious and personally acceptable foods; have access to a sustainable, safe, high-quality food supply; and eat foods that maximize health and minimize disease.

Therefore, OPHA was pleased to learn in the speech from the throne that the government would establish programs for disadvantaged children, including a school nutrition program initiative to provide children with the support and encouragement they need.

They do need it. Children who go to school hungry and children who are poorly nourished are more likely to experience school performance problems. These children experience fatigue, cope poorly with stress and exhibit a diminished attention span, all of which interfere with learning and school performance.

Therefore, the Ontario Public Health Association recommends that school breakfast programs be addressed by the government in the 1996-97 budget.

Mr Miller: Of the health services which are designed to maintain and promote health and prevent disease, it is the public and community health sector which is the leader in bringing this policy into reality in communities throughout Ontario. Public and community health are on the forefront of prevention, protection and health promotion in Ontario. The current measles campaign being implemented by public health units across Ontario reflects the capacity of public health to introduce preventive cost savings. Currently, the public health units in Ontario, at a total cost of about \$4 million, will be immunizing about two million children against measles. To do that through the medical sector would cost somewhere between \$16 million and \$17 million.

We have the ability to respond to community needs. In 1995, over 2,000 cases of measles were reported in Ontario; 84% of these were with school-age children.

Even larger outbreaks were predicted for 1996, so we needed control measures now. It was important for the public health units to respond before the situation got worse, so that is what we are currently doing.

Actually, public health units manage or oversee the delivery of 22 mandatory programs which are intended to maintain a high standard of preventive health across the province. Public health units are governed by local government representatives as well as community and provincial representatives, thereby giving both provincial and community accountability. This is a built-in feature of all 42 health units in Ontario.

We'd like to highlight the fact that preventable injuries are one of the leading causes of death, if not the leading cause of death, for everyone under age 44. Injuries account for more years of life lost before age 65 than cancer, heart disease and stroke combined and cost Ontario taxpayers in excess of \$4 billion a year. Public health and community workers work to prevent falls by the elderly, promote bicycle helmet use and are active community partners in injury prevention programs. Yet, while injury treatment consumes \$4 billion of our health care dollars, injury prevention has not been designated as a priority by the Ministry of Health.

The focus of public health units is the entire population of communities. They ensure the existence of conditions in which everyone can live healthier lives. Comprehensive programs are systematically established to protect the health of the community through illness and injury prevention and promotion.

Public health is an integral part of communities as well as the health system in Ontario. We believe that the province of Ontario can achieve fiscal savings while advancing the health of the public. We're recommending that the Ministry of Health establish primary health promotion and disease and injury prevention priorities based on health system cost and health enhancement, namely, heart disease, cancer, unintentional injuries and substance abuse.

Just before we conclude, I would like to draw to the committee's attention that appended to our presentation is a summary of our recommendations and also a list of community stories in which some of our members have indicated some of the kinds of impacts that our membership is having at the community level. I also point out to you a little fact sheet just indicating some of the services that public health provides at the community level, which is being used in a number of our health units across this province.

Thank you for this opportunity. We'll be able to answer any questions that the committee might have.

Ms Castrilli: I wonder if you might just tell us a little bit about who your membership is. I think that might be very helpful for the record.

Mr Elson: We have approximately 1,000 individual members who span the whole spectrum of people who are active in public and community health across Ontario. Those include public health nurses, public health physicians, dentists, dietitians, health promotion specialists and the like, people who work in community health centres, people who work in public health units as well as people who work in a variety of community agencies.

We are not a discipline-focused organization but in fact represent the collective interests around policy and interest in the whole public and community health field.

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Ms Castrilli: It's good to hear from a multidisciplinary group. I was particularly taken with the suggestions you make around nutrition and breakfast programs. It's certainly something which has occupied a great deal of our attention. We are very concerned about that. I wondered if you might elaborate a little more on the effects of good nutrition and the kind of program that you feel should be in place.

Ms Martin-Smith: I think that the issue around breakfast programs is critical. Any of you who are familiar with Fraser Mustard's work at the Centre for Advanced Research, he's made a direct link between nutrition and the future productivity of the population. So nutrition was identified as key because it's critical to growth and development. I think that breakfast programs will serve a distinct purpose in feeding healthy children at the school-age level. I have personal experience in working with the zero-to-four population, where nutrition is even more critical, and that will be a gap, I think, that the government will have to address at some point: How do we feed those children who aren't in school but are still hungry?

Ms Castrilli: You mention some real economic benefits of that study that you cite. Is that a Canadian study?

Ms Martin-Smith: It's a US study.

Ms Castrilli: And it was over a 20-year period?

Ms Martin-Smith: Yes.

Ms Castrilli: Are there any studies of that sort in Canada?

Ms Martin-Smith: Not that I'm aware of, not the longitudinal type.

Mr Tony Martin (Sault Ste Marie): I have found your presentation to be very good and certainly very helpful and hopefully very challenging to my colleagues across the floor. You make some, I think, excellent recommendations here, recommendations that are being made by other groups in other venues around this building these days as we, at the committee level, do things like look at estimates and bring ministries and agencies before us to talk about their role in government and their plans for the future.

Certainly, you make about six excellent recommendations. I'm only going to focus on a couple to ask some questions. One of them, just to highlight, is certainly the one where you ask the government to consider backing away from the tax break. I want you to know that I've had opportunity to personally ask the Minister of Education and Training, the Minister of Community and Social Services and the Minister of Municipal Affairs and Housing over the last few weeks if they determine in their area, in their jurisdiction, that the pain they're inflicting by way of the decisions that they're making becomes counterproductive, will they go to the cabinet table and encourage their cabinet colleagues to back away from the tax break because it's just not, at this particular time anyway, in the best interests of the province as a whole. You certainly speak very much in favour of looking at the province from a holistic perspective.

But the two things I want to ask you about are—and again I think it's really important, because I don't sense that this government understands the need to do planning and to have in front of them as they make decisions impact statements, like, how is this going to affect all people? You've mentioned here that they should, in making funding decisions, take individual community health service needs into consideration. That means planning; it means thinking; it means being involved and listening to other groups.

You also said, "Set in place an annual report of the Health Services Restructuring Commission, thereby evaluating the cumulative impact of the proposed changes on the subsequent economic and physical health of all members of the community." The sense I get from the government is that that's a very complicated and long process that just isn't viable from a time perspective as it tries to move very quickly to implement its agenda. How difficult is that, in light of the impact that the decisions that are coming at us at lightening speed in this province over the last six months are going to have on the people that you obviously are so much concerned about?

Mr Miller: The actual complexity of the planning process I'm not able to say at this time. I can only say that a healthy community is a productive community and that is our end, to have a healthy community. A healthy community producing makes us economically a wealthier community.

There are times when efforts to save costs actually cost you more down the road. An example we're all familiar with: Just last week we heard reports from the Hospital for Sick Children where we've had early release of mothers who have given birth. Sure, it saves the hospitals; however, what we are seeing is that a lot of these infants are now coming back into the emergency departments to seek treatment, sometimes as a direct result of those early releases.

We need to think through some of the impacts of our actions. We probably won't be able to cover everything, but we need to do some planning and think through the potential impacts before we make some of these decisions.

Mr Martin: Your recommendation number 5, which is that school breakfast programs be addressed by the government in the 1996-97 budget, it seems to me that the best place to feed kids is at home. The best answer to nutrition and poverty is to make sure that every home has adequate income.

The cut of 22% to the income of the poorest of those among us in communities and the expected moving aside of rent control will in turn increase pressure on poor families as they try to figure out where to spend their money, and one of the places that they have most discretion is in the area of food. If you were given a choice between child nutrition programs and making sure that people had adequate income and good housing, which one would you—

Ms Martin-Smith: It would be adequate income and good housing. It's interesting that you bring that up. Back home where I live, I'm a member of a coalition and we were talking about instituting a school breakfast program locally. What the parents who were part of the group said

was, that was one option but they much preferred to be able to have the means themselves to feed their own children before they went to school and that if they had adequate income, they would be able to do that.

Ms Bassett: Thank you for your presentation. I'm encouraged to see that you're supportive of so many of our government's initiatives, including the need for restructuring and achieving cost-efficiencies by reducing duplication and waste and also to establish a basis of funding on which people will be served equitably, and to work towards that. There are so many encouraging signs, and also the cooperative signs.

One thing that I wanted to mention, though, concerns the planned tax cuts. As you know, the Premier has said that we are going to go ahead with the tax cuts. When you say that you hope that they'll be more in balance or favour the lesser income levels, we do have the fair share health levy and that is going to be graduated according to higher-income and lower-income people will not be paying. That will balance in a way, and so from your point of view we are trying to keep that in mind.

My colleague wants to talk about the Premier's breakfast programs, I believe. Margaret.

Mrs Margaret Marland (Mississauga South): I just wanted to respond briefly to what Mr Martin commented on, as well as having a question for you, because I think it's terribly important, especially for people when we conduct these committee hearings, that very few members of the public get to read what is said in Hansard. But when we are in this room, which is televised over the parliamentary channel around this province, it's terribly important that what we say in this room is accurate.

It was mentioned, "Would you be concerned," or however it was phrased; I guess I'll have to read it in Hansard tomorrow, but the inference was that there are going to be greater problems for some of these families because of the removal of rent controls and I think it's—

Mr Martin: And the reduction of their income by 22%. Mr Chair, might I raise a point of order?

Mrs Marland: Not on my time.

Mr Martin: Point of order, Mr Chair. Is the member calling me a liar?

The Chair: That's not a point of order.

Mr Martin: Well, it is if she is.

The Chair: No, the member is not. I can answer for her in that regard. Thank you very much. Ms Marland.

Mrs Marland: Thank you. I appreciate that. In 11 years I've never called anyone in this building a liar.

The Chair: You're using your time.

Mrs Marland: The removal of rent controls that is being proposed and at this point in time being discussed by our government, by our minister and the cabinet is not, nor has it ever been, a blanket removal of rent controls. At this point in time it hasn't been finalized, but originally it was proposed that it would be a removal of rent controls on new construction in order that we get new rental accommodation built.

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It's terribly important to people who will never own their own home and who have to rent their shelter to know they will have certain protections, and our shelter allowance program is going to be able to fund housing

for about four times as many people as the previous non-profit housing program, which built bricks and mortar and which could only fund a few people by directly giving people shelter allowances where they can go and choose to live in anybody's privately owned and privately built building. They will have more options.

I think it's wonderful to hear you talk about the importance of a breakfast program because no matter what we do out in the community, even though there are some families with enough money, they still don't get up and get breakfast for their children and their children often go to school hungry just because of irresponsible parenting. Not always is that the reason, but the point is there are a number of reasons why children get to school hungry.

We admire very much your concern for them because for a very long time now Premier Harris, when he was the leader of our caucus, was trying to get a breakfast program supported by the government to encourage the private sector to help implement it, because there are examples around the world, as you are aware, I'm sure, where breakfast programs for children are totally sustained by the private sector and the corporate world, and it would be wonderful if we could still get that going with that support from the private sector.

I'm very sympathetic to your comment about early releases from hospitals because I think all of us have constituents where we've experienced where a mother and child have gone home, in some cases only to be readmitted, sometimes particularly because of a C-section problem for the mother. I want to emphasize that those releases are medical decisions made by the doctor, that it's okay for that mother and child to go home, so I don't think the government can take ownership of those medical decisions and nor would you want them to.

Have you, through your organization, worked with the private sector at all in terms of a breakfast program funded privately and not funded by the government?

Mr Elson: As an organization, we're not involved in the delivery of programs directly at a community level. Our organization supports people who in turn are active in development of these programs. I'm certainly aware, like I say, that on previous occasions the health promotion branch and others have had discussions with the private sector. I think the Pepsi decision in terms of the Toronto Board of Education is one example. You need to know what you're negotiating with and for and the ultimate purpose.

I think there's flexibility for it that already exists in many circumstances, for it to engage in certain kinds of discussions. I think from a provincial level there have been limited discussions on providing support across the province, so it's basically up to individual communities to try to nickel and dime and quarter themselves into individual ones, which from a cost-effective point of view isn't necessarily the most appropriate way to even be discussing this. It creates distortion around those who have a capacity to negotiate and with resources, though in many ways those who have get more, but I think that that's an area to be looked at.

If the government's looking at this program, my challenge would be, who is the government negotiating

with in the private sector to bring them in at a provincial level to deliver this kind of a program?

Mrs Marland: Thank you for that suggestion.

Ms Martin-Smith: I was just going to say on the issue related to the government encouraging corporate citizenship, for corporations that live locally, what do they give back to the community? I think that's one of public health's strengths, being able to bring members of the community together to solve problems, and that's happening, certainly throughout different parts of the province.

The Chair: I'd like to thank the Ontario Public Health Association for its thoughtful presentation today.

Mr Crozier: Mr Chair, just for the information of these folks before they leave, and it may go to helping Mrs Marland with her question, Sandra Papatello, the Liberal member from Windsor-Sandwich, has put together a breakfast program that involves the private sector. The planning is all there. I think it needs some staff help on the government side to move it ahead and I suspect that may be used very shortly.

ONTARIO CONFEDERATION OF UNIVERSITY FACULTY ASSOCIATIONS

The Chair: The next group before us is the Ontario Confederation of University Faculty Associations. I'd welcome Michael Piva and Marion Perrin.

Dr Michael Piva: Thank you for having us. I'm president of the Ontario Confederation of University Faculty Associations, and Marion Perrin is the executive director of OCUFA. We represent 11,000 university professors and academic librarians within the province. We've appeared before this committee in years past, though we have never appeared with the trepidation that we arrive with today.

Our concerns emerge out of a situation in which we have had two decades of underfunding within the university system. The universities have had to cope with this underfunding by eliminating waste, by seeking efficiencies, and I think we have succeeded in maintaining excellence in education during this period. It's in the context of two decades of declining funding in which we've struggled to maintain excellence that the Treasurer's statement of last November was particularly painful for the universities. The repercussions of that have not played out through the system yet; they are now in the process of working their way through the system.

We don't doubt that the government was elected with a mandate to deal with the financial situation in the province, with the fiscal realities of the province. We don't entirely agree with all the measures adopted by the government last November to deal with those, but at the same time we believe those actions were themselves sufficient to meet the primary mandate this government had during the election.

We believe it's important to recognize that at some point a declining debt-to-GDP ratio will make funds available, either for further reductions of debt, for reinvestment in public programs that are vital to the province, or for tax reductions. We believe we will reach that point in the near future, not the long term. We believe the evidence strongly suggests that we will have a situation where we will have a declining debt-to-GDP

ratio by 1996-97 and that it is to growth we have to look to really resolve the problems.

We're concerned that a further round of cuts would put growth at risk. We note that growth slowed significantly during 1995; we believe as a result of the cuts that were announced. There are a number of worrisome economic indicators. There's a low savings ratio in the province; there's very low consumer spending in the province; and there's much unused capacity in the province, all of which indicate that the potential for real growth in the economy is there. Our concern is that further cuts would put that potential growth at risk and indeed could bring on renewed recession.

We believe that this would be particularly the case if in fact there were additional cuts in the spring in those areas we believe should properly be seen as investments in social and economic growth and development. We believe that post-secondary education is clearly one of those areas that should be understood to be investments in growth and development.

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Most observers recognize that education enhances the human capital of the province and of the nation. Graduates are better able to contribute in innumerable ways to the development of their economies, their societies, their cultural life, their environment and their democratic institutions. It is precisely because education enhances the ability of Ontarians to contribute that parents want university education for their children; it's why adults in the workforce return to our institutions in ever-increasing numbers; it's why young adults want access to our institutions in ever-increasing numbers; it's why employers hire university graduates; and it is why neighbouring jurisdictions south of us in the United States are all increasing their contributions to universities.

I think the contribution that universities make to value added, if you will, to the human capital of the province is fairly easy to demonstrate, and the statistics are all there. University graduates are far more likely to be employed, and employed productively, in high-paying jobs, but this is a particular concern as the new century approaches because of the shifts in the economy that have occurred already and are going to occur in the near future.

We observe that between 1989 and 1994 the number of jobs for university graduates increased from 844,000 to 978,000, while jobs for those without degrees decreased from 4.1 million to 3.9 million. All of the studies indicate that as the economy changes over the next couple of years and into the new century, there will be increasing economic need for a highly educated workforce, and the universities make major contributions in providing that workforce.

It is precisely because of this economic need that access to the system is so critical. Not only is there an economic demand for graduates, but Ontarians recognize that need, recognize universities as the vehicle for qualifying themselves for those new jobs of the future, and that's why enrolment has gone up and demand has gone up.

I'll only observe that over the last 18 years, the level of full-time equivalent enrolments in Ontario's univer-

sities has increased fully 48%, and there will be increasing demands over the short term. Most of the demographic studies show that the age cohort from which we traditionally have drawn most of our students is increasing. There is also an increase in the participation rate within that age cohort. There's also tremendous increase in demand from return learners: adults already in the workforce who want to return to universities to upgrade.

OCUFA believes that a university education is a right of citizenship and that access to that right of citizenship must be available to all who are qualified.

The contributions of university education go well beyond the educational services we provide to our students. Universities also conduct research. It is one of the features of a branch plant economy that the private sector invests relatively smaller amounts of money in research and development. In Canada, research and development investments among G-7 countries rank ahead of only Italy. I would also observe that universities provide 26% of the research and development that is conducted in this country, and that's a much higher percentage than in Japan, the United States, France, Germany or the United Kingdom. So universities contribute substantially to this economy's ability to innovate and ability to sustain state-of-the-art research, and that again gets to the heart of Ontario's ability to maintain its competitive position, particularly as the new economies come on stream.

Universities contribute in other ways as well. Spending for universities translates into spending within communities that sustains small business. Often, universities are the major employers within their particular communities. Viable universities also act to attract other investment to these communities. Universities also contribute to helping these communities grapple with the problems they face.

University faculty and academic librarians all contribute in helping us grapple with social issues like the social strain associated with industrial slowdowns. University faculty and academic librarians help first nations work with the problems that they face. We help develop strategies to reverse environmental degradation. We contribute to the cultural and artistic life of our communities through concerts, art shows, theatre. Faculty also contribute their own time and their own intellectual expertise to their communities through voluntary work with social service councils, district health councils, police services boards and any number of other vital community activities.

Investment in Ontario universities is in fact quite efficient. There is a mistaken notion abroad that there is fat within the system. I'll only observe that, in constant dollar terms, spending on a per-student basis in 1994 was only 77% of what it was in 1977-78 and that we have dealt with that decline by seeking efficiencies. Whatever fat was in the system has long since disappeared.

I think one can compare and measure the efficiency of investment in universities in this province by comparing it to other jurisdictions. I'll only observe that per-student spending, on average, among the other nine Canadian provinces is \$1,000 more per student than in Ontario; that during the 1990s Ontario, in terms of per-student spending, has ranked either eighth, ninth or 10th among

Canadian provinces. This is not an anomaly; it's a historical reality.

Another way of measuring the efficiency of this investment is to compare it to comparable jurisdictions outside Canada. I'll only observe that per-student spending in the United States in public post-secondary education is 22% higher than in Ontario.

Another way of measuring the efficiency of investments in post-secondary education is to look at per-client spending for other transfer partners. Over the last 20 years per-client spending has increased in hospitals, it has increased in elementary and secondary schools, it has increased in other areas such as adult offender institutions. But in post-secondary education it has declined during these years.

OCUFA believes that the reality facing the province is that it will become increasingly impossible to maintain our enviable record of excellence in education and access without the commitment of adequate public funding. We support Ontario's system of publicly funded, autonomous institutions. We believe that is in fact the strength of the Ontario system and is the explanation of how we have been able to innovate, to change, to adapt and to maintain excellence in the face of declining funding. It is precisely because autonomous institutions have been provided with the kinds of flexibilities needed that we're able to develop and innovate new delivery systems such as distance education, the rapid expansion of part-time studies, the emergence over the last several years of increasing numbers of new interdisciplinary programs, the development and expansion of shared programs both among universities and between the universities and the colleges, and the rapid expansion in information technology.

We would reject a shift in the current balance between the public and private contributions to university education. As public institutions, meanwhile, we recognize that Ontario's universities must be accountable to the public. We applaud the sunshine legislation brought in recently on the broader public sector salaries and benefits. For your information, we have attached our policy document on openness and transparency in university governance. We would also hope that the recommendations of the Task Force on University Accountability not be left on the shelf to collect dust. There were many valuable recommendations that were made in that task force.

In conclusion, then, universities play an important role in enhancing economic, social and cultural life within the province. By any standard, universities in this province provide a high quality of education through a reasonable level of public investment. Over time, our universities have become increasingly efficient. We have expanded our enrolment, our program offerings, our delivery options to meet a broad range of public policy and social demands that have been articulated. However, it's equally clear to us that the level of quality, the level of accessibility and the level of innovation cannot be maintained in the face of further funding reductions. In our view, the options are clear: Ontario must either fund its university system appropriately; restrict funding and thereby restrict access; or fund at a lower quality of education for a larger number of students. OCUFA does not believe that either of the latter two options is acceptable or politically

palatable. The decision on how to proceed and the responsibility for the consequences of that decision of course lie with the committee.

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Mr Martin: Thank you for your presentation. It's certainly consistent with other presentations that have been made and discussion that's been had out there in the broader public around the reduction of resources to very valuable institutions that have been built up over years to participate in the economic life and vitality of communities in the province. Certainly you, I think in a very clear and articulate way, shared with us the contribution that colleges and universities make to the life of communities, particularly the economic life.

For example, in my own community, which struggled in the early 1990s through some very difficult times, I don't think there was one of our major industrial players that didn't experience some downturn and require as a result some major restructuring and laying off of significant numbers of people who needed to be retrained so that subsequently they could be either taken back on at those particular workplaces—you know, Algoma Steel, St Marys Paper, the Algoma Central Railway, Lajambe, and the list goes on.

As these companies restructured, they brought in a new technology, they brought in a new way of working together, and a lot of the load to prepare the workers to participate in that in a productive and constructive way was carried out by the university and by the college. I would suggest that where communities have been able to restructure and come out of the very difficult recession that we were in in the early 1990s, colleges and universities played a major role in making that happen. As a matter of fact, I don't know how some of these folks would have handled the transition had there not been the resource of the college or the university there to take them in and to adapt to their very real needs and to support them as they move forward.

More and more we're seeing in our communities today an older population of people starting to go back to school because of the changing times we're in. I don't think that you're here today to tell us that universities and colleges don't need to change and adapt and be flexible and recognize the realities of today, but I think what I hear you saying is that you have to be really careful. Too much, too fast as opposed to allowing it the time that it needs to adjust can kill an organism as opposed to causing it to get healthier.

You've painted a picture of the impact that colleges have and the impact that changes proposed by this government will have. What would you suggest are things that could be done alternatively to have colleges and universities participate more fully even in the changing economy that we're facing now and to be ready to face up to the challenges of the next century as we come at it, as opposed to what the government is proposing here, which is major cuts?

Dr Piva: From my perspective, the most vital thing is adequate funding. Universities are grappling with all sorts of problems and they have over the last near term developed innumerable efforts, in a variety of ways, not only to improve the internal operations and delivery of

programs, not only to expand access, not only to seek efficiencies by developing cooperative programs between themselves and other universities, but also to seek better connections, if you will, better transfers, if you will, between research and the private sector; I think of Waterloo in particular with its engineering faculty.

I think those efforts need to be encouraged. I think they're all vital. The problem from my perspective is that it's difficult to do those things in a situation in which there are substantial cuts and reductions in programs and funding cuts that require restricting access. My feeling is that the problems that came out of the Treasurer's statement of last November are now working their way through the funding of the system. They will be difficult enough to grapple with, and universities clearly need time to make those adjustments; they are substantial. So right now the biggest problem is adequate funding.

Mr Wettlaufer: Do I understand you correctly? When you say that funding is a problem, do you not consider then that the deficit is a problem?

Dr Piva: No. In my brief I think we make fairly clear that we do think that the government was elected on a mandate to deal with the fiscal realities, and I do think the deficit and debt is a problem. I don't entirely agree with the government's decisions on particular ways of handling that problem, but I think the point of this brief is that we have relied upon the economic modelling provided by the institute for policy analysis at the University of Toronto. They updated their analysis in January to take account both of the lower growth and the increased funding cuts that were announced late last year. Their model clearly projects that the measures already adopted by the government are sufficient to meet the mandate upon which it was elected; that we will turn the corner on this problem in the near term, not the distant term; that once we reach a situation when we have declining debt relative to GDP, we will in fact be in a position where we can make decisions free of this. So we believe that the long-term solution is not to dampen continued growth.

The Bank of Canada in November 1995, in its monetary report, made the observation that we have 3% unused capacity within this economy; 18 months ago we were projecting significantly greater growth than in fact materialized in 1995-96. I don't believe we're hitting a debt wall; I think low interest rates are an indication of that. My concern now is that a second round of cuts would in fact put growth at risk and I believe we'd run the risk of throwing the economy into recession. If that were to occur, then in fact we really would have an even more serious deficit problem.

Mr Wettlaufer: Okay. Let's assume for a second that you're correct, but in the event that you're not correct, we have to have a contingency plan in place. How would we go about that? Would we close universities, would we reduce faculty incomes, would we increase tuition a greater amount? What would you suggest?

Dr Piva: I would suggest crossing that bridge when we come to it, but what concerns me at the moment—

Mr Wettlaufer: Not if we're going to plan properly.

Dr Piva: If you're going to plan properly. But as a representative of faculty, I'm not entirely sure I'm in a position to speculate on those kinds of things.

My view, however, is that when you make these decisions, it is similar to a private company making decisions when it faces a problem on what to invest in. My view is that post-secondary education has to be understood as a public investment that historically has traditionally always paid dividends and that we know will continue to pay dividends in the future. I think when you're facing that kind of situation, to cut back and choose not to invest in value added productive capacity is a mistake.

Mr Wettlaufer: But one of the problems we in private business have had over the years is that we always have to develop contingency plans. In many cases, we develop three, four and five contingency plans, and because government doesn't do proper planning, our contingency plans go out the window.

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Dr Piva: The problem universities have is that we too have our contingency plans, but the planning process in Canadian universities has been made particularly difficult over the last couple of years because, if you will, the goalpost keeps changing. I know of no universities that don't have strategic plans, that haven't been working on strategic plans over the last four, five or six years. What the universities need is stability in their funding, and without that stability, it is extremely difficult for universities to adapt because of our inability to plan.

Right now, I think the primary need of the universities is some degree of stability in the face of what has already taken place last November in terms of the funding cuts. Those are going to be difficult decisions to implement at the university level, those funding cuts. I think right now our ability to adapt and our ability to maintain excellence in the province will be dependent on some degree of stability that will allow us to do precisely the planning that you're suggesting. Universities do do it, but it's a difficult process when in fact the funding environment changes as rapidly as it has in the province over the last little while.

Ms Marion Perrin: I'd also like to add that when you're looking at any particular plan to implement, you always have to look at the outcome of what's going to happen with that plan. When you're looking at increases in tuition beyond that even recognized by the CSR as what the Conservatives wish to see—we're beyond that stage now—when you look at those types of things, you have to see what the consequences are and where is the enrolment. Are you now discouraging people from getting the very education that is needed to help our economy grow? I think that's part of the problem with saying, "Well, perhaps we should just do X," like increase tuition. I think you always have to look at what the consequences of those actions are going to be.

Mr Crozier: Thank you and good afternoon. When you talk about stability, we can be reasonably certain of a couple of things. One is that the government seems to be insistent that it's going to give its tax cut. They're going to go out and borrow \$20 billion over the next four and a half years, on which we're going to have to pay \$5 billion of interest and raise the debt from \$90 billion to \$120 billion. We seem reasonably certain of that.

Last year at this time, if you'd read the Common Sense Revolution, you could have been reasonably certain that reduction in education spending was going to be in the terms of several hundred thousand dollars, anywhere from \$200,000 to \$400,000. Now it's a billion. The Minister of Education has come out and said, "We have to find \$1 billion." Can you give me some perspective of what that does, compared to the original amount of a couple of hundred thousand that you were looking at?

Dr Piva: I'm not sure I'm able to respond to that. My reading of the Common Sense Revolution is that they projected \$400 million from post-secondary education, they projected another \$400 million from the primary and secondary sector, and my understanding is that the \$1 billion that's being talked about now is in the primary and secondary sector.

Mr Crozier: But it will have some effect on post-secondary education.

Dr Piva: Yes, it will. But the primary effect that it'll have, the \$400 million that was taken out of post-secondary education, I think, is to seriously impair access. The faculty-student ratio within Ontario has already increased from 13 full-time equivalent students to 18 full-time equivalent students per full-time faculty over 20 years. That number will increase sharply. Our classrooms are already overcrowded. That's going to be exacerbated, so the quality of education's put at risk in that way. Ability to innovate with new delivery systems like distance education is impaired if the money is not there and has to be pulled back for vital programs. The range of programs will be cut back. Tuition will increase, as it is already doing, and that will make it increasingly difficult for people to go to university. So I think the primary result is larger classes, higher student-faculty ratios, less contact between student and faculties, restricted programs and serious jeopardy to the open system of Ontario universities.

Ms Castrilli: Thank you very much, Professor Piva. We've met before, and I've always been impressed with the clarity of your thought. You've reminded us very well today of the nature of post-secondary education, it's true nature, which is an investment in human capital and economic growth, and I think we would agree that there is no modern successful economy that doesn't rely strongly on research and high-quality post-secondary education.

We could go on a long time, but I'm going to ask a very specific question dealing with the universities as net creators of job or job creation. You are no doubt familiar with the study that was done by McMaster University for the COU, the Council of Ontario Universities. I wonder if you might comment on universities as job creators. We agree totally on the quality and accessibility and autonomy.

Dr Piva: For many communities within the province, it's absolutely vitalizing to the health of the local community economy, because in a lot of regions, universities are the largest employers within their communities. Certainly on a riding-by-riding basis, universities are frequently the largest employers within a particular riding.

As such, university spending, both in terms of salaries and wages paid to its employees—and they go far beyond faculty and academic librarians—that money is spent sustaining innumerable small businesses within these communities. That spending is spent in the domestic economy on the purchase of goods and services throughout the economy.

So the study that was done by McMaster, I think there's a parallel study for North Bay that talks about the economic effect of pulling out that investment from these local communities where it demonstrates quite clearly what this means in terms of lost municipal taxes when funding is cut to these communities. In many cases, the direct economic contribution to the functioning of the local economy—the purchase of goods and services, the generation of economic activity—the universities are vital institutions within most of the communities in which they are situated. Even in Toronto, where one cannot argue they're the largest employer, they still are major contributors to local economic activity.

Ms Castrilli: Just for the record, the conclusion of that study was that even a 17% cut to university budgets as a whole would end up not having the savings that the government projected. In fact, they would be in the nature of \$20 million or \$30 million savings as opposed to the \$400 million.

Ms Perrin: A 20%—

The Vice-Chair: Thank you for the comments. I'm sorry. Our time has expired this afternoon.

Ms Castrilli: But I think it's important to put this on the record, because it's a statistic that might be very useful.

The Vice-Chair: Give me a quick comment on that, please, just a quick one.

Ms Perrin: A 20% cut in provincial grants means a loss of \$1 billion in sales for businesses in this province. I won't go into the rest of the statistics since the Chair has said our time is up.

The Vice-Chair: Thank you very much, and on behalf of the standing committee, thanks for your presentation today. Have a good day.

ELI LILLY CANADA

The Vice-Chair: Our next delegation is Eli Lilly Canada.

Mr Terry McCool: I'm the vice-president of corporate affairs for Eli Lilly and company. I certainly appreciate the opportunity today to appear before your committee and to offer some of our views on your pre-budget consultation.

I'd like to begin by stating that we support the government in its efforts to reduce the deficit and bring spending under control. A balanced budget and a stable economic environment are critical for industry to make long-term investments. Equally critical through the process of deficit reduction and spending control is that the goal of quality, efficiency and effectiveness of services not be compromised. We'd like to offer some comments today from the perspective of a significant investor in Ontario and a provider of health care products and services.

First I'd like to provide you with some background on Eli Lilly. We are an integrated health care company that's providing innovative pharmaceutical products and health care services within the Canadian environment. We are an Ontario-based company. Our head office and fully integrated manufacturing and research facility is located in Scarborough. We employ more than 550 people across Canada, and 430 of those are employed within Ontario.

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Our global mission is to create and deliver superior health care solutions by combining pharmaceutical innovation, existing pharmaceutical technology, disease prevention and management and information technologies in order to provide customers worldwide with optimal clinical and economic outcomes.

We have begun the transition from a traditional pharmaceutical company to an integrated health care company through the purchase of Rx Plus, a health benefits management company located in Sudbury, and through the establishment of Health Management Services, a disease management organization. Through our integrated approach to health care, we will ensure better utilization of existing health technologies to provide more optimal outcomes. As well, we will explore opportunities to provide information that will help prevent diseases and utilize information and information technology to better manage diseases and improve outcomes.

Eli Lilly will also continue to discover breakthrough compounds focused on unmet clinical needs, and our research focus is in five therapeutic areas: endocrinology, specifically diabetes and osteoporosis; infectious disease; cancer; the central nervous system; and cardiovascular disease.

I'd like to comment a little bit about our track record in research and development in this province. In 1995, Lilly R&D investments in Canada exceeded \$30 million, which represents 12% of our sales. In Ontario, Eli Lilly has invested greater than \$70 million in research and development since 1990. This includes the analytical research laboratory at Sunnybrook Hospital and a \$15-million research agreement with Allelix Biopharmaceuticals.

We are currently constructing a \$25-million R&D facility at our Scarborough site. This expansion, our fifth major expansion since 1946, is expected to be completed in September of this year and will enhance Eli Lilly's position as a leading funder of R&D in Ontario. We are also in the process of purchasing an additional four acres adjacent to this site for future expansion.

The economic climate in Ontario: We realize Ontario has experienced challenging economic times in recent years. The recession and current slow economic recovery have taken their toll in terms of job losses and reduced investments. Previous government efforts to stimulate growth and job creation through increased government spending, while well intentioned, have not produced economic recovery and have resulted in obviously increased deficits. As well, relatively high taxation and an excessive regulatory climate have increased the cost of doing business in the province, making Ontario a less attractive place to invest.

This is particularly concerning for our company and for our industry. Eli Lilly is a global company operating

in 120 countries worldwide. Our Canadian operation is one of five integrated operations including manufacturing and R&D. The others are located in the US, the UK, Germany and Japan. As the Canadian affiliate of a growing and expanding company, obviously the expanding markets in Asia, Latin America and eastern Europe present new areas of competition for achieving these global investments.

We view the duplication of regulations between governments and the interjurisdictional rivalries within Canada as a negative factor as we compete in the global marketplace. As we will mention later in this presentation, harmonizing the federal and provincial roles in regulating the health care sector is a critical factor to ensure a competitive environment.

We support the current government's commitment to create an economic environment that attracts investment and allows the private sector to create jobs. The government can do this by implementing policies that encourage the private sector to invest in Ontario. Balancing the budget, reducing government red tape and regulatory duplication to create an environment receptive to business investments are important components of this plan.

At the same time, we believe in the government's role to continue to provide support for an effective safety net including health care and social services for those most in need. Through increased efficiency and decreased waste in the system, these programs do not have to be compromised by deficit reduction and spending controls. We believe that decisions regarding social and health reform should be made with appropriate consultation to ensure a balance is met.

I'd like to focus now on the specific steps we believe the government must take to create the economic climate for the private sector to create jobs.

The annual Ontario budget deficit is approaching \$10 billion. Debt in the province stands at approximately \$100 billion, and we have reports that it could climb to \$120 billion by the year 2000. Interest on that debt is costing \$9 billion annually and growing. This severely undermines the international confidence in Ontario as a place to invest and a place to do business. With so many public dollars going to service the debt, we believe that it also prevents government from spending tax dollars in areas that improve the quality of life of Ontarians.

It is crucial, therefore, for the government to commit to balancing the budget and getting the province's finances under control. This government has announced its intention to make balancing the budget a priority, and we fully support this goal. We recognize that it will be a difficult challenge to meet. However, we see this as absolutely critical to the economic prosperity and investment future of this province. We also encourage the Ontario government to work with the federal government to address the national deficit and debt.

The only realistic approach to cutting the deficit is to cut spending. This will not only allow a balanced budget but will also increase economic prosperity and ultimately reduce the debt and tax burdens of Ontarians. We believe that government, like other sectors of the economy, must deliver more with less. It means that government services must be more effective and more targeted. As jurisdic-

tions across North America are looking at ways of reducing government, Ontario cannot be an exception.

While we support a smaller, more effective government, we also believe that there is a role for government in the health care sector. The government is committed to maintaining funding for health care at \$17.4 billion. However, we also believe that there is a need for flexibility in applying this budget cap. We believe there are efficiencies that can be realized in our health care system and that those savings can be reinvested in the system. Ontario also has a growing population and demographically we are all getting older. This will create an increased demand for health care. Therefore, some flexibility for funding is needed.

Increased health education, both from a prevention and optimal use perspective, offers one of the greatest opportunities for savings within the system. Lilly's own experience within the area of diabetes management has demonstrated that increased education can result in a significant reduction in diabetes-related complications, resulting in increased quality of life for people with diabetes and a decreased cost to the system. In 1992 it was estimated that diabetes cost the Ontario government between \$700 million and \$850 million in direct costs. Studies have also shown that early educational intervention can significantly decrease the main drivers of this cost, including the number of days in the hospital and emergency room visits.

Another area which offers significant opportunity for savings to health care is an effective and comprehensive drug program. Pharmaceuticals are recognized as one of the most cost-effective interventions within health care. We are currently developing new technologies that will offer improvements in a number of different areas, including cancer, diabetes, osteoporosis and schizophrenia. These new treatments will not only improve the quality of life, but will also help to lower overall health care costs.

To achieve significant savings in health care from the new technologies requires the Ministry of Health to review its budgeting process. The current budget structure within the ministry does not allow it to recognize cost savings from new medications in other areas of the health care system. Eliminating silo budgeting would also allow savings from reduced hospitalizations and physician visits to be realized. We hope that in this budgeting consultation, government would look to a more flexible internal budgeting process.

Lilly Canada believes that working towards appropriate utilization of drugs, rather than restricting or not providing access to certain drugs, affords the greatest opportunity for savings. We also believe that more timely access for patients to new drugs through the elimination of regulatory duplication will provide savings to the system sooner and a better opportunity for more optimal care.

An efficient regulatory system is necessary to ensure a strong private sector and a healthy economy. As part of the private sector, the pharmaceutical industry has been greatly affected by excessive regulation and duplication in Ontario.

For example, pharmaceutical manufacturers currently submit extensive safety and efficacy data to the federal

health protection branch. This information is thoroughly reviewed before permission to market a product is given. As such, it is unnecessary and costly to provide this same information to various provincial bodies, such as the Drug Quality and Therapeutics Committee in Ontario. At a time when regulatory bodies in Europe, the US and Japan are looking to harmonize their systems, Canada still operates 10 overlapping provincial and one national system.

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We recommend that the Ontario Ministry of Health require only proof of the federal HPB approval and appropriate cost-effectiveness data which demonstrate the value of the product to the payer and to the consumer. Elimination of excessive regulation will bring therapies to the consumer faster and will result in lower administrative costs for government and for manufacturers.

As well, we see similar issues at a local and regional level, particularly in the greater Toronto area. The economy of this province and indeed this country is dependent on the economic engine of the GTA. As a company with facilities in the area, we believe that the government must make every effort to support the integration and development of the GTA. This is vital to the future economic prosperity of the province.

One of the current objectives of the provincial government is to eliminate unnecessary and duplicative regulations, and we support the government's initiatives through the Frank Sheehan Red-Tape Review Commission and other internal process to reduce regulatory duplication and streamline various approval processes.

Eli Lilly supports a fair tax system and paying our fair share. While Ontario has a relatively high corporate tax rate when compared to other global markets, we believe that the current tax credit system for R&D and manufacturing is a good method to encourage more investment in the province. It is crucial to our company and our industry that these incentives are maintained in the system to ensure competitiveness with other jurisdictions.

Eli Lilly Canada is concerned about the uneven tax structure across the province, particularly as it applies to Metro Toronto. We have made a decision to invest in Scarborough but we are watching the deliberations on tax reform in the GTA closely. We have seen a number of our competitors locate outside of Metro Toronto when expanding or relocating their operations.

In these days of limited funding and shrinking budgets, governments must rethink their roles and responsibilities. In this field we believe there are a number of ways in which government can work with industry to deliver cost-effective quality goods and services to the people of the province. At Eli Lilly, we are already embarking on this route through our funding of research in public universities and hospitals and our own facility. We are also setting up disease education programs to help people better manage their disease, and we feel that there are a number of areas where government and industry can cooperate for the benefit of all. We feel that the research, science and technology sector is an excellent area for partnership and we hope that we can work with government to invest in this vital sector. We would be interested in working with the government to examine new opportunities in this area to help meet your objectives.

Eli Lilly has a significant and long-term commitment to Ontario. The opening of our new \$25-million research and development facility in Scarborough in September demonstrates our desire to invest and create jobs in Ontario. Our ability to sustain this type of investment will depend on the investment climate in the province and the country. Stability and predictability within our markets is critical. We must have an assurance that access for our products on the provincial formulary will not be delayed by lengthy, unnecessary and duplicative processes or by unrealistic and counterproductive budget caps.

We hope the government will use this budget to send a clear signal on a number of issues, including moving towards a balanced budget, reducing government spending and improve efficiency in the health care sector, easing the tax burden on business, eliminating excessive regulation and duplication with other levels of government and fostering a new willingness to work in partnership with industry. We believe these measures will attract investment and result in long-term growth and create jobs and prosperity for Ontarians.

We do not believe these choices are easy. However, it is important that action be taken now, for to do nothing will only mean tougher choices in the future.

Thank you. I'd be pleased to answer any questions.

Mr Jim Brown: Thanks for thinking about buying four more acres of land in my riding, and thanks for providing all these extra jobs. Have you any estimate on how many jobs you're going to be adding through the current expansion?

Mr McCool: With the new R&D facility, we'll add approximately 20 new jobs to that site. But you have to remember if you look back in history, we had in 1986 about four people in Canada in our research area, and by the end of this year we will have well over a hundred, and these are all jobs at the scientist level. A lot are masters and PhDs, and it's kind of preventing the brain drain that we used to see in our industry in the past.

Mr Jim Brown: You've got to hire more than 20. They all have to be right around your factory.

One of the things you said was that you were concerned about the federal debt—you're concerned about the federal deficit—and you seemed to be saying that we were doing the right thing, but that what we were doing might be somewhat limited by the feds and what they were doing. Can you expand on that? Do you think they're going limit the effect of what we're doing?

Mr McCool: I'm not sure they'll limit the effect, but I think there's been a lot of downloading of responsibilities associated with the debt from the federal government to the provinces, and the provinces to the municipalities. Ultimately, there's only one payer.

I think our concern is that sometimes in the past the federal government has created some kind of tax relief only for it to be overturned at the provincial level with additional taxes, and I think that's very counterproductive. One thing the provinces have to do is work with the federal government to do a better job of deficit and debt reduction.

A number of provinces have already made great gains in terms of balancing budgets and reducing their deficits, or at least have plans to do so. The two major provinces

in this country plus the federal government have a long way to go.

Mr Jim Brown: The provinces can do whatever they can do, but there is still a limiting factor in the federal government.

Mr McCool: Yes, there is. But still, there has to be an attempt to do it.

Mr Carr: One of the other pharmaceutical companies that was in talked about the government moving to end the practice of offsets in product listing, and I wonder if you could explain a little bit further, because there's been this mentality, the silo budgeting, what more the government can do to move in this area.

Mr McCool: One of the things that is difficult in the Canadian health care system is to provide some management expertise overall, and we've seen a government budgeting process where there's a certain amount of money provided for physicians, and a certain amount of money for hospitals, and a certain amount of money for pharmaceuticals, and it's very difficult to transfer money across budgets, when you can clearly demonstrate that certain new technologies in pharmaceuticals will either reduce hospital expenditures or reduce, sometimes, physician procedures. There's no way to capture that money. We think the government needs to do a better job of looking at how to capture those savings and transfer it across those different budget silos.

Mr Carr: One of the reasons is that when you make a reduction in one area, what governments have done is they never made reductions to fund in other areas.

Mr McCool: That's exactly right.

Mr Carr: The criticism you get is the opposition saying that you're cutting health care when in fact we'll be lucky to keep it at \$17.4 billion with the growth. How do you get around that from a political standpoint?

Mr McCool: You have to remember that there are about 700 vested interest groups in health care, so it does become a political football. It does take some political will to make tough decisions. Canada does have an excellent health care system, and I think at the end of the day, you want to maintain the standards associated with that, but action does have to take place. It does need some reform. Good luck.

Mr Kwinter: Mr McCool, welcome. I've had the opportunity of visiting your plant on several occasions over the years, and I have to commend Eli Lilly as probably a model that others should emulate as a corporate citizen. I just want to congratulate you on that.

I agree with a lot of what you've said, and I'm just curious to get your reaction to one of the major problems that I see. I remember when I was a minister, there was a real sort of—it was kind of a friendly fight to see whether Quebec or Ontario was going to be the pharmaceutical centre of Canada. I would say even now, it's a pretty even distribution of pharmaceutical companies in both provinces.

One of the great attractions, notwithstanding the perception that this might be a higher corporate tax jurisdiction, was the fact that we had the basic infrastructure. We had the universities, we had the hospitals, we had the ability to do clinical trials, we had the pool of people at universities where you could do cooperative research, things of that kind.

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Do you see that impacted at all by cuts to universities, to hospitals, to programs of that kind? Is that going to have an impact on you?

Mr McCool: Governments everywhere are cutting research spending. The federal government's cutting it, the provincial governments are cutting it; they're relying more and more on the private sector to pick up the slack, so as cuts do happen, the potential exists for that.

I think if you talk to the research community that works down here at the University of Toronto or McMaster or Western Ontario or Queen's, you would probably hear that they are reliant on the industry partnerships to maintain the research funding that they've been used to. Obviously, cutbacks in things that you need to move towards a new, innovative economy are critical to that movement. I guess it just has to be done with some kind of understanding that those are some of the things that governments want to invest in and not necessarily cut back from.

Mr Kwinter: I'm also very supportive of your proposal that we eliminate duplication. We have the DQTC here and we have the federal body. Is there any reason why Ontario just can't accept what the federal regulatory authority does, as far as their testing the efficacy and the quality of pharmaceuticals, and that it shouldn't be accepted as a standard for everybody in Canada?

Mr McCool: There's certainly no reason why they shouldn't. What you've seen is that cost containment in health care has put up barriers to new technology. It's not just Ontario that does this; most of the other provinces have put in similar kinds of bodies, and it's more to say this new technology comes with a certain cost associated with it and there's a reluctance to accept it, so they've all put in place these review bodies that just delay access until they are absolutely certain that it should be part of a benefit in the province. It has hurt the investment climate here in Canada; even though it is a relatively good investment climate, the market that you need to support those investments gets hurt by that.

Mr Kwinter: What about the whole issue of generics, how does that impact on your industry and what are you doing, for example, where they're mandated to prescribe generics when you're putting all this investment into research? How do you counter that?

Mr McCool: We've had it for quite a number of years in Canada. We have to learn how to operate within that kind of a system. You have to remember that a number of the other developed countries where we operate do not have such things as mandatory substitution. They allow generics to be available but they don't insist that they have to be used by physicians and reimbursed by governments. They have a more flexible system.

Mr Martin: Thanks for coming today. I've certainly found your input very interesting and challenging. There's a lot in here that I would have no difficulty in agreeing with, certainly in terms of approach and speed and timing. Those are some of the things.

You start out your presentation built on some premises, the same premises, actually, that the government is rolling out its program built on: that the economy is not doing well, that in Ontario we have a crisis of sorts and

that because of that, companies are not willing to invest in Ontario. How do you reconcile that with the fact that we actually had historical record investment in Ontario in 1994? That's a fact.

As I read the year-end reports of many of the major corporations in the province, since we're into that time of year, I discovered that they're all recording historically record profits: "Barrick Gold, 10th straight year of record profits"; "Scotiabank defends record earnings"; "GM tops them all, \$1.3 billion, sets profit record." Then we get into Brascan, "1995 profit of \$312 million, best in 96-year history." We move on to another paper where it says "Petro-Canada declares a profit of \$196 million for 1995," and this increase comes despite major layoffs in their company and the charges that brings with it.

Then we read as well in another paper here somewhere that last week, I think it was, the stock market was roaring. I'm not that familiar with the stock market; maybe Monte is more than I am. I'm not sure.

Mrs Marland: Somebody else made this point last week, Tony, when you weren't here.

Mr Martin: It needs to be made again. The reason the stock market is roaring is not that they're so much interested in the present, although I think I've shown you what's happening in the present—companies are making record profits—but their activity is based on what they see is ahead of them, and what they see is a set of extremely promising conditions.

Given that this is the situation for a whole lot of major corporations in our province—Brascan, for example, owns Great Lakes Power, which is in my community, a record investment in 1994—how do you reconcile that with the picture that's being painted of an economy that's in crisis?

Mr McCool: I don't think my words were that the economy was in crisis. They might have been someone else's. What we tried to comment on is, how do you continue to stimulate the investment and growth of business in this province? You can't just take a look at a snapshot in time and extrapolate that to, "Businesses will always be successful." You can't have a philosophy that profits are not a good thing, because profits get reinvested and create the jobs and the investment that are necessary to survive.

Mr Martin: I couldn't agree with you more.

Mr McCool: I guess I'd be a little concerned about your point that this is likely to continue forever and we should live happily ever after. I just don't see that.

Mr Martin: I'm not saying that. All I'm saying is that I question somewhat your assertion that Ontario is a less attractive place to invest, given that companies that are already here are doing quite well, actually.

Mr McCool: Let me apply it to our industry, then.

Mr Martin: Around the question of reducing government spending, you make some good points that we do need to take a really good look at the way we spend money and we need to be more cost-effective and deliver more with less. We were doing that as a government too, if you remember the social contract.

Mr McCool: I remember it well.

Mr Martin: Nobody will ever forget the social contract—Gary won't, anyway—and the expenditure

control plan that we brought in and all of that. I recognize that you are suggesting that we continue down that path, except that you don't want us to put a cap on drugs available to people.

Mr McCool: That's not what I said. I said we should be careful with putting a cap on health—

Mr Martin: The question I have for you—

Mrs Marland: A point of order, Mr Chair: I'm sorry to do this, because I haven't had to do it last week or previously this week, but I think in fairness, when we invite the public to come before a committee to speak and we ask them questions, we should allow them to answer. It's a common courtesy.

The Vice-Chair: Mr Martin, did you have a quick question, please?

Mr Martin: Do I have the floor?

Mrs Marland: It's common courtesy.

The Vice-Chair: A quick question, please.

Mr Martin: Thanks for the lecture and the homily.

I'd like to know, in light of your wanting to do as much as you can in your area to provide the best of pharmaceutical services to people and in light of this government struggling with a financial situation that is very difficult, would you at this particular point in time suggest that they go ahead with the tax cut?

Mr McCool: They were elected on a tax cut and I think the public is fully expecting that, so I think that's the mandate they have.

The Vice-Chair: Thank you, Mr McCool, for your presentation today. Have yourself a good day.

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COMMUNITY ESL COORDINATORS' COMMITTEE OF GREATER TORONTO

The Vice-Chair: The next delegation is the Community ESL Coordinators' Committee of Greater Toronto.

Ms Yi Man Ng: Honourable Chair and members of the committee, my name is Yi Man Ng. Today, I'm with Anna Henderson and Katrina Grieve. We are speaking on behalf of the Community ESL Coordinators' Committee of Greater Toronto.

The committee was established in the early 1980s and currently represents 42 community agencies in greater Toronto that offer adult ESL programs. Of these agencies, 24 deliver newcomer language orientation classes that are funded by the Ontario settlement and integration program through the Ministry of Citizenship, Culture and Recreation.

The mandates of the committee are to liaise with funders on demographic changes and immigration trends, on fostering of partnerships with school boards and community groups and on support to learners' settlement needs; to study and research new directions and programs to meet the changing needs of our learners and our communities; to promote coordination of programs and to facilitate effective cooperation and mutual support; to coordinate professional development for ESL coordinators and instructors; to deal with issues affecting ESL delivery and ESL learners.

We were pleased that the Ministry of Citizenship, Culture and Recreation renewed its commitment to

immigrants in funding the NLOC program for 1995-96. This funding has enabled us to continue essential ESL and preschool programs within our communities for this school year.

According to the Report on Settlement Language/Orientation Activities and Newcomer Language/Orientation Classes (NLOC) Grant Program 1993-94 prepared by the Ministry of Citizenship, more than 16,500 learners were enrolled in ESL classes within the greater Metro Toronto area. These are part-time and full-time classes conducted seven days a week in the morning, afternoon and evening from early September to the end of July yearly. They are offered at literacy, beginner, intermediate and advanced levels as bilingual or unilingual classes. As well, there are citizenship preparation classes and integrated classes with skills training components.

Most classes are cosponsored with various local school boards. Classes are held in schools, and with support from the communities they are also held in community recreation centres and churches. These ESL programs form a critical part of the broader settlement services we offer to immigrants and refugees in our communities.

ESL programs are composed of learners of different backgrounds and from over 100 countries. Based on A Broad Vision: Immigration Plan, prepared by Citizenship and Immigration Canada, about 52% of newcomers to Canada arrived in Toronto in 1994. According to the Report on Settlement Language/Orientation Activities and Newcomer Language/Orientation Classes (NLOC) Grant Program 1993-94, prepared by the Ministry of Citizenship, the ESL programs in the greater Toronto area represent more than 75% of the total learner population in Ontario. These statistics indicate a great demand for ESL classes. Newcomer language classes are instrumental in assisting immigrants in acquiring the English language in the settlement process.

ESL citizenship and classes with skills training components are essential for immigrants to more fully participate in the broader aspects of society socially, economically and politically. They are critical to immigrants' successful adaptation to Canadian society. For many years, these programs have provided opportunities for them to familiarize themselves with their immediate neighbourhoods as well as to understand the different aspects of Canadian life.

In addition, English-language acquisition is a major stepping stone towards entering employment or skills training programs. Once employed, immigrants augment the growth of the Canadian economy, which benefits our society. Over time, immigrants contribute more tax than the Canadian-born. They also bring in a wealth of knowledge and global experiences that are advantageous to the growth of Canada in many aspects. Therefore, investing in adult ESL classes is a significant benefit to our society, socially and financially.

There are many Canadian citizens who attend ESL classes because of their limited knowledge of English. Many of them are highly skilled and educated. If given opportunities to learn English, they will be able to tap into their wealth of resources and consequentially contribute to the Canadian society.

Also among the learners are those who have worked in Canada for a relatively long time but have now lost their jobs due to plant closures, downsizing or restructuring. Since most jobs now require strong communication skills in English, these adults need to have access to programs to improve their English skills so that they can return to the workforce.

In addition, ESL programs are crucial for immigrants to provide adequate support for their children's learning through elementary and secondary school. Parents who can communicate in English will be more likely to participate in their school community. Perhaps most important, parents with strong English language can support their children's learning at home by helping with homework and being a resource. Without parents' ability to communicate to teachers and school officials regarding the needs of their children and the ability to support their children in their learning, immigrant children will have a difficult time in school.

Now Anna is going to do her presentation on ESL classes delivered at the community level.

Ms Anna Henderson: Through the Ontario settlement and integration program, which we call OSIP, community agencies have developed creative, innovative programs over many years and adapted them to the changing needs of immigrants and refugees in our province. Agency staff have developed considerable expertise in how to help immigrants adapt quickly and successfully to Canadian society. Some of the innovative programs developed by agencies funded through the Ontario settlement and integration program include ESL programs with an emphasis on skills training and job-specific programs. Skills training ESL programs have been developed based on demand for retraining, computer training and training for entrance to specific professions. Many of these programs assist foreign-trained professionals in learning the technical language associated with their profession and in gaining orientation to the Canadian marketplace.

The success of community-based language and orientation programs has been due largely to our ability to provide links and supports to new immigrants that address their settlement and training needs in a holistic fashion. As community agencies with a wide range of programs, we are able to assist individuals with their basic needs, such as child care and housing, in order that they may participate fully in language and skills training programs. Through a strong network of community-based agencies, we are able to refer newcomers to many specialized programs that provide training to meet their very specific needs. Our programs are flexible and responsive. Because of our close involvement with the individuals and the communities that we serve, we are able to identify common needs as they emerge and adapt our programs accordingly. We play an important role in assisting immigrants and refugees who have significant barriers to overcome. These programs allow immigrants to gain the support they need in order to adapt to our society and to obtain employment quickly.

Provincially funded ESL programs have been major pioneers in the development of ESL programming for adults. Through these innovations, Ontario ESL programs have become models to emulate for programs across

Canada. Every year ESL programs provide essential language training and orientation to over 19,000 adult immigrants and refugees in Ontario.

As a program OSIP is cost-effective, with extremely low administrative and delivery costs. According to the Report on Settlement Language/Orientation Activities and Newcomer Language/Orientation Classes Grant Program 1993/94 published by the Ministry of Citizenship, the total grant expenditure was slightly more than \$2 million. This grant served 454 adult ESL programs throughout Ontario. The average cost for each learner per hour was 40 cents.

These community-based programs are only partially funded by OSIP. There has always been the expectation that our agencies would complement the grants with funding from other sources, including foundations and private fund-raising. Also, free facilities such as church basements, community centres and recreation centres are utilized to deliver these classes and programs. In addition, many of the programs are supported through the work of dedicated volunteers from the community who give many hours of their time in tutoring one-on-one as well as in the classroom setting. However, without OSIP our ESL programs could not continue to survive and the expertise and innovative programs developed over many years would be lost.

In conclusion, we would like to say that we recognize the Ministry of Citizenship, Culture and Recreation is facing the challenge of budget constraints. We would like to stress that the newcomer language/orientation classes, NLOC, which are funded under OSIP have served to promote immigrants' independence, integration and economic contribution to Canadian society. We ask you to continue your support for the settlement language programs that make such important contributions and we look forward to working closely with the ministry in ensuring that immigrants in Ontario will have continued access to quality community-based language training programs.

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We have three recommendations like to make.

It is recommended that the provincial government recognize the significance of English language training for immigrants and refugees settling and seeking employment in Canada.

It is recommended that the provincial government maintain the present level of funding for ESL programs.

It is recommended that the government ensure the continued existence of community-based ESL programs in order to provide continued access to those programs for immigrants and refugees in Ontario.

Thank you. One of our co-chairs of our committee, Katrina Grieve, will be pleased to answer questions.

Ms Castrilli: Thank you very much for coming today and sharing your thoughts with us. I'm impressed by your presentation and particularly by the notion that what public funding there is really provides seed money. You provide a service at a very low cost with a number of volunteers. Am I reading this correctly? Do you want to comment on that?

Ms Katrina Grieve: Yes, that's correct. As we said in the presentation, there's always been an expectation that

funds from the Ontario NLOC program would be matched—not exactly matched, but would be supplemented by funding from other sources, including fund-raising by individual agencies and other grant sources. Most of these programs that we're representing are held in community-based organizations that get funding from a variety of sources, municipally and provincially and federally. These programs are not only supported by the Ontario government, but they're supported by all levels of government in addition to private foundations, donations and fund-raising activity.

Ms Castrilli: What percentage of your funding would be from the provincial government?

Ms Grieve: For this particular program I think it varies tremendously from organization to organization. There are some new immigrant groups who have arrived fairly recently in the country who don't have access to the same kinds of resources that some of the other organizations who have been settled and perhaps operating for 50 to 80 years in Canada would have better access to—other funding sources. It varies tremendously. I don't have particular figures to give you, but I could submit those if you're interested.

Ms Castrilli: Your paper indicates that your grant for 1995-96 has been left as is. Is that right? It's assured?

Ms Grieve: There was a cut to the program this year. I believe on average the cut was 5% to the NLOC program.

Ms Castrilli: And what you'd like is to continue your funding at that level? Is that what your concern is?

Ms Grieve: I think that would be acceptable, given the budget constraints of the Ontario government. We understand the difficulties that you're facing at the moment. In addition to that, we have heard news that the department that gives support to these programs within the Ministry of Citizenship will be closed as of March 31. There have been additional reductions in the administrative support provided to these programs, including support in terms of materials development that are used widely across programs in Ontario. Those will be additional reductions that have taken place on top of the 5%.

Ms Castrilli: What do you envision would happen if the funds were seriously decreased? What happens to the 16,000 learners you have?

Ms Grieve: We also have to remember the context in which cuts are taking place. They're not only taking place at the provincial government level at the moment, they're taking place at the federal level and the municipal level. A lot of the agencies that deliver these programs are run very efficiently using many volunteers to run the programs.

Our fear is that as funding is reduced from a number of different sources, immigrants and refugees will have less and less access to programs that would help make the link into further training programs, into employment opportunities. We fear that that would result in a great deal of isolation of individuals and that there would be additional cost to our health care system that would result. We would have more people on social assistance for a longer period of time. We feel that these programs are an investment and they're preventive. They help

people in a relatively short period of time to adapt to Canadian society and find employment.

Mr Kwinter: Does your client base have free access to the program?

Ms Grieve: Yes, that's correct.

Mr Kwinter: I have seen speculation that, as part of constraint, various levels of government, both the municipal level and the provincial level, are looking at possible user fees for programs such as this. Have you done any analysis of what the impact would be on the uptake of the program if there was a user fee?

Ms Grieve: We haven't done any studies on this issue particularly. We have the sense from participants in our programs that a very small user fee might be acceptable, and we're talking about a \$5 or \$10 per course kind of level. They're willing to contribute something to programs. However, many of these individuals have very few resources available to them, and I would be very wary of imposing user fees. At the current time we are already feeling the results of cuts to social assistance in that many participants in our programs are having to drop out because they can no longer afford TTC tickets to get to the programs. Imposing additional fees on top of that would be an additional problem for many participants.

Mr Martin: Thank you for coming today and doing such an excellent job of explaining to us how money that's spent in this way is in fact an investment in a human resource that will come back to pay dividends eventually to society and to communities and to government and make Ontario a better place for all of us to live and to work and to play. I'm saddened when I think of what may happen to programs such as yours that are so obviously valuable. We hear this government talk about—is it \$1 million a day or \$1 million an hour?

Mr Jim Brown: A million dollars an hour.

Mr Martin: A million dollars an hour that we're spending. There's the sense out there that that's money into a big black hole or into a Swiss bank account somewhere where it's just kind of disappearing, it has been washed out to sea.

This group today has painted a picture for you very clearly, and I hope you saw it, that money spent by government is an investment, whether it's in capital or people, that comes back to pay dividends eventually. If you don't spend it, things start to fall apart, people get sick and eventually, in many, many significant ways, it comes back to bite you, to hurt you in ways that are going to be more costly than if you kept the programs going in the first place.

As you look ahead at what this government is proposing, that government moves out of the way and that the public sector backs off and that the private sector will move in and in a more cost-effective way deliver in the areas that have been vacated programs that are necessary so that everybody can participate, and we'll all sort of move along with this new economy that's going to be generated, are you comfortable with that notion? Do you think the people you represent and speak on behalf of today so very clearly and eloquently will be served well in this new Ontario and that they will be ultimately able to contribute in the way that they are now once they get through these ESL programs down the line?

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Ms Grieve: There have been a number of discussions in a variety of areas. One area is perhaps that many of these services can be provided by volunteers. The other area is perhaps that these programs could be provided better by private organizations. We already use volunteers to a large extent in our programs. At some point you need someone to coordinate the volunteers; volunteers just don't coordinate themselves. In the delivery of language training programs, we feel it is essential to have qualified language instructors teaching these programs. I suppose one fear of going to a privatized model would be that the high standard that currently exists would be eroded.

Another fear of pursuing the privatized route is that only individuals who had the best chance of a quick success rate would manage to go through those programs, that the private companies would tend to prefer to accept people of whom they could show, "Look at our success rate and the people that we turn around so quickly and place in jobs so quickly." The individuals who need some additional supports would be left out. That is one concern about private language instruction.

Currently, private language instruction in Canada is geared more to visitors to Canada, students from overseas, than it is to immigrants and refugees. The people involved in ESL training programs have developed quite a bit of expertise over time in the specific needs of immigrants and refugees and making sure that the language instruction programs are based on their particular needs.

Mr Jim Brown: Just for Mr Martin's benefit, the \$1 million an hour that goes out is not an investment. It's a payback to the bond holders in interest, and interest is an expense. It's a total waste of money, interest.

Mr Martin: Then why is it the poor who are carrying it on their backs?

Mr Jim Brown: I'm still on, Mr Martin. You had your chance.

The Chair: Are you asking a question, Mr Brown?

Mr Jim Brown: Well, when I have a chance.

You seem to do very well with \$2 million; you do exceedingly well. I noticed from past budgetary figures in the Ministry of Education's expenditures that there was a figure of \$68 million that the previous government had spent on ESL and yet you do all Metro Toronto on \$2 million. Do you have competition? Are we funding other ESL programs that aren't as effective as yours, to your knowledge?

Ms Grieve: The way this grant actually is used is to provide some resources to community-based programs to help provide these programs. They are provided, for the large part, in co-sponsorship with local boards of education. The boards of education are actually providing the instructor's salary, so that would account for considerably more expenses being incurred by the boards of education versus this program.

This grant from the Ministry of Citizenship provides the resources for different communities; for example, sometimes it's a community-based program in a multi-service organization. We have quite a number of those in Toronto. In other cases, it might be an ethno-specific organization dealing particularly with the Somali com-

munity. They would like to develop programs based on the needs of that particular community.

The NLOC program provides some funding for a variety of different models of service delivery whereas the boards of education offer programs both in co-sponsorship with us and on their own. The classes they offer on their own are in school sites and don't have additional supports for their learners, as do some of the settlement agencies that can provide translation, assistance with counselling, assistance in pre-employment linking to skills training opportunities.

Mr Jim Brown: So you could not do the job without the instructors in the schools who are paid for out of the Ministry of Education?

Ms Grieve: That's correct. It is a partnership with the boards of education. Currently, in other parts of the province I believe there are some different models in existence. There is not always the involvement of a local board of education. It depends on the individual situation. I think in some of the more remote communities, for example, an agency is run primarily through the use of volunteers and a coordinator who would coordinate the program. It's quite a flexible program that has been developed to meet the particular needs of each situation across Ontario.

Ms Bassett: Just to pick up on what Jim was asking—and I thank you for your presentation and I agree it's a necessary program and all the rest—if we were trying to determine how much as a province we were putting into ESL, just to know what we're paying, we can't do it by looking at the fact that you're very efficient with your \$2 million, because you're doing other things with that \$2 million, I presume; or is it just ESL you're doing?

Ms Grieve: That's just the ESL part alone, that NLOC program.

Ms Bassett: So we have to get the adjunct from the boards as well to get a figure. I'm just trying to get it in my mind because people are always saying to me, "How much do you pay on ESL?" I can't say \$2 million, because it's \$68 million—

Ms Grieve: I'm afraid I don't have those figures with me here. You would have to go to the Ministry of Education to get those figures.

Ms Bassett: Do you think it's a streamlined program across the board, from what you see, or do you think there are places that in the delivery of the system—and I'm not saying yours particularly, but you're obviously expert at knowing what we're doing. It could be more, because we're cutting right across the board. Are there ways we could be looking at turning it over more to people such as yourself, or whatever? I don't know.

Ms Grieve: In the past few years the local boards of education, at least within Metro Toronto, have been cutting back on ESL program delivery. For the last three years we have had a freeze on opening any new classes and we've had a considerable reduction, of up to even one third, of classes offered. So there has already been a considerable reduction, and right now the boards of education are looking at ways to increase efficiencies of running the programs, perhaps consolidating some programs in some areas and even reducing the number of hours of instruction per year. Those measures have already begun.

One of the areas, when you look at the whole picture and how can we assess what to do in order to save money and use the money most efficiently, there could be negotiations with the local school boards, there could be negotiations with the federal government as well on how to use the money most effectively for the best possible outcome. That would be my opinion.

The Chair: Thank you very much. We appreciate the Community of ESL Coordinators' Committee of Greater Toronto for its presentation today.

MEDICAL REFORM GROUP OF ONTARIO

The Chair: The next group is the Medical Reform Group of Ontario. We welcome Dr Bayoumi.

Dr Ahmed Bayoumi: The Progressive Conservative government of the province of Ontario is preparing to bring in its next budget. This budget is likely to include cutbacks in several areas and a possible decrease in taxation rates for higher-income Ontarians. This budget has the potential for bringing about profound changes to the structure of Ontario society. Possible features include more cutbacks to social programs, the widespread implementation of user fees, further widening of the gap between the rich and the poor through regressive taxation, and the entrenchment of poverty. The Medical Reform Group believes that these and other proposals will systematically dismantle the social support systems that our society has achieved.

The Medical Reform Group of Ontario, formed in 1979, is a group of 200 practising physicians and medical students. The MRG represents the views of its members on health and health care matters through research, public statements and consultation with other groups which share our aim of maintaining a high-quality, publicly funded, universal health care system. The MRG believes that health is political and social as well as medical in nature and that health care is a right.

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The current government has proposed to decrease its expenditures on social services in order to decrease the provincial deficit. The scale and scope of the proposed cuts is unprecedented and the consequences of these cuts have not been well considered.

The relationship between cuts to social programs and health should be clear. Evidence clearly links health to such fundamentals as good nutrition, basic child care and a strong education. These determinants of health are as important, if not more, than a formal health care system. Simply put, as doctors we cannot effectively treat patients whose fundamental needs have not been addressed. We have already seen the effects that these cuts have had on our patients who receive welfare. It is unacceptable to put individuals in the position of choosing between paying for medication or paying for food. This, however, is precisely the effect of the proposed cuts.

The Medical Reform Group opposes any further cuts to social programs. We recognize that programs need to be efficient and abuse needs to be curtailed, but savings in these areas have already been accrued. Any further cuts will result in further decreases in services to those least able to withstand them. We are in real danger of losing some social programs. The role of government to

support those most in need must be preserved through protecting social programs. This government is in imminent danger of abdicating this responsibility.

The November 1995 economic statement and Bill 26 have instituted a user fee for those Ontarians who use the Ontario drug benefit plan. This means that at a time when an increasing proportion of the poor are relying on food banks to fight hunger, user fees on drugs have been introduced. Medications are not a discretionary item. Yet there is no doubt that even small user fees will act as a deterrent to utilization of services.

Given that user fees will decrease utilization, will they have an adverse effect on health? Canadian data shows us that the poor have a larger proportion of chronic illnesses than the affluent. Morbidity and mortality increase as income shrinks. The poorer one is, the shorter one's life expectancy. In Canada, that translates into a difference between the richest and poorest quintiles of 5.3 years for men and 1.8 years for women.

The evidence should speak for itself: User fees have an adverse effect on health because they act as deterrents to access. They should not be used as a revenue-generating strategy by this government. User fees open the door for growing fiscal penalties for the poor. Paradoxically, by deterring access to care, user fees have the potential of creating further adverse health effects and increasing costs to the health care system. These adverse health consequences will end up costing all of us much more than any savings realized from copayments. User fees should therefore be opposed.

Instead of user fees, we urge the government to implement the organizational and fiscal reform of the health care system which will provide the proper incentives, checks and balances to produce the outcomes we all desire: the delivery of high-quality health care, better health outcomes and satisfied consumers. For example, rather than charge user fees on medications, a more appropriate strategy would be to improve physician prescribing and achieve cost savings in more efficient methods of drug distribution.

The government has promised to cut taxes for high-income earners by as much as 30%. The government believes that this will stimulate economic growth through increased spending and that the benefits from an improved economic situation will eventually benefit all members of society. Similar theories, when put into practice, have had disastrous effects in the United Kingdom and the United States. In these societies, the gap between rich and poor has increased and the health status of the poor has decreased. As discussed above, evidence has consistently shown that income is related to health; that is, those individuals in society with higher incomes have better health outcomes than those with lower incomes. Further, redistribution of incomes is an effective way to increase the aggregate health of societies. Progressive taxation rates are a fundamental aspect of this policy.

The tax cuts promised by this government are objectionable for several reasons. First, in order to decrease social spending while simultaneously decreasing revenue, this government must severely reduce its expenditure on social programs. This will result in a direct and measurable human cost.

Second, regressive taxation rates will increase the margin between the top income earners and the lowest income earners. Thus, the poor will be directly financing major tax cuts for the rich. This policy is socially regressive and ethically reprehensible.

Third, independent analysts have questioned the ability of the provincial economy to withstand a tax cut of this magnitude. Of course, any further economic downturns will have their most significant impact upon those least able to withstand them, the poor and marginalized.

The Medical Reform Group believes that progressive taxation rates are an effective and just means by which governments can and should increase health. As physicians, the members of the Medical Reform Group belong to a group whose earnings are more than average. Individual members of our group stand to profit considerably from the proposed tax cut. Nevertheless, we renounce this cut in the strongest terms. No personal benefit can justify the societal costs these cuts will incur. We accept and support a progressive taxation rate as a basis for a compassionate, responsible society.

Ontario's Progressive Conservative Party promised to change the status quo in health care while preserving the province's total health care funding at \$17.4 billion. The Medical Reform Group believes that reform of Ontario's health care system is long overdue. Medicare could be dangerously compromised by a reactive approach which emphasizes cost savings and therefore, by omission, allows not the transformation of the status quo, but its ultimate collapse.

The association representing physicians in this province would be very happy to leave the fee-for-service non-system intact and negotiate fees, caps, thresholds and insured services instead. The result of this, given the fiscal pressures in Ontario, would be the emergence of a two-tier health care system: an ever-shrinking list of insured services for the have-nots and more and more deregulated non-insured services for the haves. This would, in the short term, satisfy both politicians, who suffer from fiscally induced headaches, and most physicians whose incomes would increase, but this scenario would not be in the best interests of the millions of Ontarians who support, finance and depend on our health care system.

This lack of momentum in reform was acknowledged by the Honourable Jim Wilson, Minister of Health, when he stated, "Anyone who knows anything about Ontario's health care system recognizes the need to stop tinkering with it and to move ahead with comprehensive reform of the system itself."

The Medical Reform Group hopes that the 1996 budget will reflect and facilitate a population-based approach to the provision of primary care for this province. A strengthened, coordinated primary care system of primary care funded through a capitation formula would address many of the problems facing us. In order to provide a better, cheaper care, we need to build on a strong foundation of good primary care. Without this foundation, any attempt at reform becomes a house of cards waiting to crumble.

Ontarians do not want a two-tiered health care system with user fees. For many years we've witnessed the terrible inequities of health care in the United States, the suffering associated with care denied or forgone because

of inability to pay, and the huge financial burden associated with chronic or catastrophic illness.

The United States model of corporate, for-profit health care is resulting in deteriorating health care for middle- and low-income earners and destructive infringement on the autonomy of health care providers. The United States has also shown us how corporate health care maximizes profits by providing care to low-risk individuals who use less care, leaving the public system to pick up the pieces and provide the more expensive care required by sicker patients. The MRG is concerned that the government has recently expressed its support for such a system in Bill 26 and in its attitude towards new facilities reinforcing the move towards privatization in Ontario.

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The US-style model is the worst possible direction for Canadian health care. Data confirm that the Canadian health care system is more efficient than the American system. At the same time, it is more equitable and accessible. This system needs to be strengthened, not weakened.

The government should commit itself to two strategies to protect our public health care system. First, the Canada Health Act should be strictly enforced. User fees and other illegal charges should be prohibited and those charging them should be aggressively prosecuted. Second, this government should commit to reinvest any cost savings back into a publicly funded health care system. Shifting spending to the private sector is not only unjust, it is also inefficient. We are committed to the maintenance of a universal, accessible, not-for-profit, publicly administered health care system in Ontario.

The upcoming budget has the potential to fundamentally change the structure of Ontario society. Ontarians are committed to their health care system. User fees and privatization will systematically destroy this system. Alternative funding arrangements can immediately strengthen it.

Preservation of health needs more than just a strong health care system. It requires strong social programs funded through a fair, progressive taxation system. We urge the government to stand by its commitment to preserving our health care system through these measures.

Mr Martin: Thank you for taking the time to come forward today. I find your presentation very informative, and actually, as I take it in and begin to try to comprehend the impact of some of what you're suggesting is about to happen as Ontario unfolds and this government continues down the round of reform and makes the cuts that it does to the programs that all of us depend on this province, I can't help but be a little bit shaken. For anybody listening to you and listening to the groups coming before us, and putting all that in the context of the statements of July 1995 and November 29, 1995, and the noises that are being made by the various ministries this government is now in charge of, it's actually shocking, and frightening is what it is.

You talk, I think very eloquently, about the impact of any change to the health care system by way of move to two-tier or user fee, the impact on the poor and those who can least afford to pay, those who are already struggling. You know, as I do, that this government has moved very aggressively to hurt those people.

Mrs Marland: Oh, give me a break.

Mr Martin: Are you saying you're not, Margaret?

In July they took away 22% of their pay. In November they diminished the resources that are available to them to help them cope with that. We hear the Minister of Housing talking of removing or changing the system of rent control. We hear the Minister of Education talking about user fees. We hear the Minister of Health now talking about user fees. It goes on and on; it just doesn't seem to ever end. The target and the victim seems to be nearly in every case those who can least afford to deal with that.

What do we do? This government has been given a mandate. They have a majority government here and they're going to do their shtick for three or four years until such time as the populace of Ontario has a chance re-evaluate and maybe do something different. In the meantime, it's my grave concern that a whole lot of people are going to get hurt. Have you any suggestion what we might do to mitigate against that or assist in any way so that the impact is minimized?

Dr Bayoumi: In the reform we talk about of the health care system, the fundamental aspect we see is to move towards a capitation-based system. The system we have now is if you preserve a system where each physician bills for each service they provide for each patient. It's an inefficient system. It's a system that increases costs. It's a system that has no containment built within it. It's a system that lends itself to arguments for user fees and that ultimately, as we're seeing, will not be sustainable.

A capitation-based system, whereby patients are rostered and see physicians on a regular basis, but physicians are paid per patient on their roster rather than fee for service, would first of all, I believe, improve the quality of care the patients receive and allow for better economic management of the costs of health care.

Mrs Marland: Dr Bayoumi, I'm assuming that you are a doctor of medicine. Am I correct?

Dr Bayoumi: That's right, yes.

Mrs Marland: You say that the Medical Reform Group is currently 200 practising physicians and students.

Dr Bayoumi: That's right.

Mrs Marland: Can you tell me how many are graduate physicians and how many are students?

Dr Bayoumi: The large majority of our members are graduate physicians. I think we only have 10 to 20 student members at this time.

Mrs Marland: The last time I looked at the membership of this group, it was mostly Toronto members. Is that still the case?

Dr Bayoumi: Our membership is based in Toronto, in Hamilton and throughout the rest of the province.

Mrs Marland: But primarily it is urban-centred, isn't it?

Dr Bayoumi: We have several rural members, but most of our members are urban-centred, yes.

Mrs Marland: I thought they were. I knew they were in the past. Of 23,000 physicians in the province, your 200 represents about 0.86% of physicians practising in the province?

Dr Bayoumi: I haven't done the calculation, but if that's what it works out to.

Mrs Marland: My question refers to a comment you have on page 3 where you say, "For example, rather than charge user fees on medications, a more appropriate strategy would be improve physician prescribing and achieve cost-savings in more efficient methods of drug distribution." Now if I were a physician, I think I would be somewhat insulted by the suggestion that we need to improve my ability to prescribe medications for my patients. I just would like to give you an opportunity to clarify what your inference is when you say that we need to improve physician prescribing.

Dr Bayoumi: Sure.

Mrs Marland: The second part of my question is, how would you achieve the "cost-savings in more efficient methods of drug distribution." Perhaps you could answer both those questions for me.

Dr Bayoumi: Sure. The evidence from numerous studies has shown that physicians are not rational in the way that they prescribe medications.

Mrs Marland: Are not what?

Dr Bayoumi: Rational in the way that they prescribe medications.

Mrs Marland: What does that mean?

Dr Bayoumi: I'm not talking about individual physicians. I'm not picking out myself or any other physician. I'm talking about, as a rule, physicians tend to prescribe newer medications before they prescribe older medications, even when the older medications are as effective; physicians tend to respond to advertising from pharmaceutical manufacturers more than they respond to scientific literature showing that one medication is more effective or less effective than another.

There's lots of research looking at how to change physician prescribing behaviour. One such example is what's been called academic detailing. In other words, the same way that representatives of pharmaceutical companies visit physicians to give them information about their medications.

Mrs Marland: Are you suggesting that they prescribe irresponsibly then?

Dr Bayoumi: Again, I'm not saying that individual physicians prescribe irresponsibly. I'm saying that, as a rule, physicians have a tendency to prescribe newer medications before older medications, to prescribe more expensive medications rather than cheaper medications if they are newer and if the information that is presented to them is what they have to deal with. Part of the problem is the information that's presented to them. Many physicians are busy and rely on pharmaceutical manufacturers for the information about medications and which medication to prescribe.

Mrs Marland: How would you exercise cost-saving in the methods of drug distribution, which is your other criticism of how your colleagues in your profession serve sick people in this province? I think it's a very serious criticism that you make.

Dr Bayoumi: The most immediate benefit would be to lift the user fees that are going to be implemented in drug distribution. The user fees are not going to be helpful. Medications are not a discretionary item. Patients do not have the information about whether or not they truly need to take a medication. They're not operating in a market

environment. They take whatever medication their physicians prescribe for them.

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Mrs Marland: Are you suggesting that patients can be educated to challenge a professional who's been at school for 12 years?

Dr Bayoumi: Not at all. Not at all. It is the role of the physician to decide which medication to prescribe for his or her patient. My patients don't challenge me about which drugs I prescribe for them. They don't have a choice really about which medications I prescribe for them. If I prescribe a more expensive drug rather than a cheaper drug, they don't have the information in order to ask for the cheaper drug. That's the expertise associated with being a physician.

Mr Kwinter: Dr Bayoumi, I'd like to just follow up on that subject that we've been discussing. I think there are two perceptions of the user fee. One is that it's a method for the government to raise revenues. Another one is to inhibit what they consider to be frivolous access to pharmaceuticals, and if you put a so-called nominal user fee, then hopefully only those people who really need the drug will use it and those people who are abusing the system will not. You were getting into that kind of discussion on the last question, could you just expand on that?

Dr Bayoumi: Let me take your second point first. There's no doubt that the studies we've been shown show that user fees do decrease utilization. If the purpose of user fees is to decrease utilization, user fees work. The problem is that they decrease utilization disproportionately. They decrease utilization more among those who are least able to pay for them. In other words, the poor decrease their utilization more than the rich.

They decrease utilization indiscriminately. They decrease utilization for both appropriate and questionable interventions. In other words, if you charge a user fee for patients visiting an emergency room, and there's a perception that many patients who visit an emergency room could seek their care elsewhere, the poor who seek their care in an emergency room will not come for both appropriate and questionable reasons. The implementation of user fees will have a direct impact upon the poor, to decrease their utilization more so than among those willing or able to pay for it, and will have direct negative consequences upon their health.

The second argument—the first one that you mentioned—was that user fees would be revenue generating. Again, it's difficult for me to see how user fees are supposed to decrease utilization, that they will simultaneously be revenue generating. At best, that argument should be that they would be revenue-neutral. I can't accept a policy that's revenue-neutral and has negative health consequences.

Mr Kwinter: I'd like you to just explore the concept of capitation. Correct me if I'm wrong, but under the proposal each doctor would have a roster of their patients who were assigned to them and they would take over the health management of that particular patient. I assume the patient, other than in an emergency situation, would be discouraged from going somewhere else. If they had a health problem and probably even an emergency they'd

be encouraged to go to their doctor. Is that a fair assessment of what it's going to do?

Dr Bayoumi: In general terms, yes. Different capitation models have been proposed; some with more ability for the patient to choose where they seek their care and some with less ability. We favour maximum options for the patient to choose where they could seek their care, but essentially patients would belong to a roster and would seek their care within that environment, yes.

Mr Kwinter: What would happen if two things happen: (a) the doctor and the patient are not compatible, and (b) they are assigned and put on a roster for a doctor who is less conscientious than say another doctor. They find that, notwithstanding they are on that roster, they can't get access. How do the mechanics of dealing with those problems work?

Dr Bayoumi: Patients wouldn't be assigned to a roster so much as they would choose a roster and patients would be able, within limits, to change which group they belonged to. So there are many ways to ensure that patients have the ability to seek their care where they see it's most appropriate and with doctors whom they find they get along with the best.

The Chair: Thank you very much, Dr Bayoumi and the Medical Reform Group of Ontario, for presenting your views to the committee today.

CANADIAN MENTAL HEALTH ASSOCIATION—ONTARIO DIVISION

The Chair: Our final group of the day is the Canadian Mental Health Association—Ontario Division, and we have with us Mr Kelly, Mr Thompson, Ms Stoddart and Mr Young. Welcome.

Mr John Kelly: My name is John Kelly and as president of the Canadian Mental Health Association—Ontario Division, I am pleased that you have provided the opportunity for our organization to make a presentation to you concerning the 1996-97 provincial budget.

I would like to introduce to you Colin Young; he is a retired businessman and a member of our board of directors and policy advisory committee; Glen Thompson, our executive director; and Ruth Stoddart, who is the manager of policy planning and development at our provincial office.

The Canadian Mental Health Association—Ontario Division, CMHA, is an incorporated registered non-profit charitable organization which was chartered in 1952. We have approximately 4,000 volunteers who are active in direct, board and committee service in a network of 36 branches located across Ontario. CMHA Ontario Division and its branch services and programs are funded through government grants, local United Ways and supplementary fund-raising activities.

Since our founding, CMHA—Ontario Division has made significant contributions to the development of mental health policy in Ontario. We have consistently advocated for community mental health services which would allow individuals with mental illness to remain in their home communities, close to their families and other natural supports.

In each of our pre-budget submissions over the past several years the CMHA—Ontario Division has recom-

mended that a central target for the government be the reduction of the provincial deficit. It is our view that major transformational changes are required in the health care system, especially in that part of the system with which we have the most experience, the mental health system.

We believe in the following four principles and we will talk about each more explicitly during our discussion. However, I'd like to review these four principles now with you:

(1) That the CMHA—Ontario Division supports the principle of deficit reduction.

(2) That the government's key goal should be to preserve the protection afforded to the most vulnerable in our society.

(3) That there should be a single point of accountability within the government for children's mental health services.

(4) That in order to maintain the overall health budget at \$17.4 billion and to retain the mental health envelope, there must be effectiveness, efficiency and economy in spending and the reallocation of funds from institutions to community.

We believe it is important that the government and this committee have a conceptual framework within which the potential impacts of the 1996-97 provincial budget may be examined. The New Framework for Support document prepared by our CMHA national office provides that frame of reference. This document has been widely circulated and is in active use in other parts of the world. A copy of the community resource base portion of the framework has been attached to our submission as appendix A.

The New Framework for Support indicates that to live a fulfilling life in their community, persons with a psychiatric disability need more than the formal mental health services provided by hospitals, community agencies and private practitioners. They need to have at least the same opportunities to access basic socioeconomic support as other Canadian citizens, namely jobs or other productive activities, good housing, appropriate education and, finally, adequate income. Dr Fraser Mustard and others have argued that traditional health care may contribute 25% to a sense of wellbeing for the average citizen, while 50% of our sense of wellness comes from socioeconomic conditions. The prospect of job loss, with the potential of no longer being able to afford decent housing, adequate food and other necessities and reasonable educational and recreational opportunities for oneself and for one's children, is a frightening prospect for most people. For someone with a serious mental illness, the situation is especially daunting. Not only can their illness separate them from basic socioeconomic necessities such as the ability to work or to maintain a home, but the lack of those necessities in their lives has a direct and damaging impact on their mental health and thus their prospects for recovery.

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The community resource base contained in the framework document demonstrated the ideal range of resources that should be available to a person with serious mental health problems if they are to live a fulfilling life within the community. The basic socioeconomic conditions of

income, housing, work and education make up the foundation of this model. If people with serious mental illness do not have access to these fundamental supports, their ability to benefit from other services available to them is severely diminished. Use of the framework model will ensure that decisions are made which will facilitate the integration and coordination so needed to improve mental health care. We encourage the government to ensure that the 1996-97 provincial budget includes provisions which provide the authority and impetus for positive change within the mental health system in Ontario.

Now I would like to turn to Colin Young, who will present our views concerning the mental health reform process in Ontario.

Mr Colin Young: In the first of my brief remarks I'd like to focus on the second of the four points which our chairman identified: that in our view the government's key goal in formulating a budget for next year and subsequent years should be to ensure that in any deficit reduction program a very deliberate effort be made to preserve the protection for the most vulnerable and therefore most dependent people in our society.

One of the problems that those of us who advocate for and on behalf of the mentally ill in past years has been that there was a lack of definitive data as to prevalence and how many and how severe and things of that sort. If the committee is not familiar with the Mental Health Supplement to the Ontario Health Survey—this supplement was published in the fall of 1994 so it's eminently up to date—the data contained therein, I think, is on the one hand useful but, much more importantly, fascinating and disturbing. This survey, which was financed jointly, I believe, by the Ministry of Health and the Ministry of Community and Social Services, using internationally recognized technology and so on, established the prevalence of diagnosable mental illness at the rate of 18% or 19% across the entire population of the province. That may seem shocking, but I assure you, that is the evidence. It's broken down very extensively by region and sex, by principal diagnoses, differentiated between urban and rural, and so on.

It's an astonishing and disturbing number but it's a unique number, in that this is an Ontario database. So the first point is the prevalence rate of 18% or 19%. The second point I want to make is that may be bad enough, but the prevalence rate in what are called transitional youth, namely those persons aged 16 to 23, is 40% or more higher at 25%. If we're concerned not only for this generation to which we belong but the impact of future generations on the economic wellbeing of this province, I think we need to look with grave concern at numbers of that magnitude.

I highlight those data as very clear evidence that mental illness is indeed a major issue confronting the province in many dimensions, not only health, but also that when you dig below the roughly 20% prevalence rate, you come down to a prevalence rate of not less than 1% and more probably 2% who are severely mentally ill; that is to say, not only suffering from a serious diagnosable illness but totally disabled in consequence and where that disability is chronic and ongoing. Those are, of course, the group called severely mentally ill, the most underprivileged, and the group where we trust—and

we've made many submissions to other ministries, where in looking at a whole variety of measures we recognize how severely some of those might impact on that group, which otherwise has really no hope. In many cases, the alternative to the level of care now provided to them is homelessness and death on the streets, and I mince no words about it.

So that is essentially our first point. It covers the need to do our utmost to ensure that however we reduce global expenditures, we have the least possible impact on those most severely in need, who explicitly include a very large number of Ontario residents.

I've covered my chairman's second point, which was the need for single-point accountability for children's mental health. Our executive director will be speaking more fully to that point in just a moment.

Let me move ahead, then, to the fourth point, that in assessing future allocation of expenditures and so on in health in particular but also in other social service areas, we trust the committee and the government will pay particular attention to what we would call the three defining principles of effectiveness, efficiency and economy, each of which has a slightly different meaning but which taken together add up to a set of standards which will determine whether the money is being well spent, if I could put it as simply as that.

Let me note first, of course, that the total health budget appears to be frozen at roughly, I believe, \$17.4 billion, and that whatever changes and/or improvements are to be made will occur within that global total. Quite frankly, perhaps with some reluctance, we accept that. We think the key issue is: How is the reduction, the reallocation, the transformation and so on to be accomplished to meet the overall goals most effectively? In that respect, we point out first that spending on mental health is not much over 7% of the total health budget. Given the overall prevalence rate that I indicated of 18%, 19%, closer to 20%, that does not go very far.

Secondly, as has been demonstrated of course in the mental health reform process that has been ongoing since 1988, something like 80% of that money goes to what are called institutional purposes and only 20% to community purposes. It's useful to define the difference. Institutional services are those provided to patients occupying beds in a hospital, and community is everything else, including services that might be provided by a hospital but to outpatients or day hospital or day surgery or whatever.

Needless to say, we very much believe that is a totally inappropriate distribution of the available resources. There's a wealth of data accessed in the mental health process to demonstrate that this amount of money can be spent much more effectively, efficiently and economically in supporting community-based services, outpatient in other words, and by that I don't mean purely on medical purposes, but supporting the range of supports, case management, crisis intervention, things of that sort that the severely mentally ill need.

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So we advocate most forcibly for: first, retention, as an absolute minimum, of the total amount of money now in the mental health package or, if possible, some addition to it within the overall budget, recognizing the prevalence and severity of mental health as a problem; second, the

promptest possible action to reallocate those moneys away from institutional uses towards community-based uses.

Some of my remarks, by the way, if I may just interrupt myself, probably apply equally to other branches of medicine where, due to many different kinds of advances, the need for in-bed care is no longer as high as it once was, where people can either be turned around much more quickly or not admitted in the first place and handled through outpatient surgery and in all sorts of other ways. I think the combination of those is vital. The obvious point, of course, is that the more one can de-emphasize the institutional side and pick up the local—either local hospital services or local community services—and build them into a functioning matrix, the more likely it is to be a totally efficient, effective and economical package. We advocate strongly for that.

My final point, and I raise this only because it's currently at issue, is the role of the provincial psychiatric hospitals. I think, given the direction of mental health reform and given the very significant proportion of available funds that is spent on supporting these institutions, it's mandatory that a careful and detailed study be made of the role of those institutions, of their relationship to the balance of the system. In the Graham report, which kicked this current round off back in 1988, the phrase "the solitudes" was highlighted, where the PPHs were managing their affairs and the general hospitals theirs and community agencies theirs, and there was no integration into a properly functioning system.

If I may, I'd be happy to deal with questions after this and turn the floor over, for the moment, to our executive director.

Mr Glen Thompson: Mr Chairman, honourable members, I'm going to be quick about it. I'd like to say something about children's mental health issues; housing in so far as it impacts on people with mental disorders; employment; and forensic services. I'd only mention enough about each of those to perhaps tempt you to take a thorough look at the paper we've submitted, and you may want to ask questions about that.

It may seem self-evident—but we don't act as though it is in the services we provide in the province—that our children's services should be well organized and well integrated and that we should use those services as a preventive kind of device for people going on into the adult service systems in the mental health care area particularly. But we desperately need a better integrated set of services, anchored in each community, that is focused on the diversion of people, on early childhood education, on assistance to mothers with newborn children and on the early incipient indications of mental disorder among children. I'd just encourage you to think about the organizational framework that could be created, probably with the same dollars that we now use, I would suggest.

If one looks at the Golden report, I think there are all sorts of opportunities presented there about how we might approach service systems at the local level and unbundle them from all of the other levels of government but ensure that there's a proper set of criteria set out for the local level to operate under. It's very evident in that report how much this greater Toronto area and indeed the centres across the province are in many ways the engine

of economic growth in the country, and how much, if we don't care for the quality of life here, including the children's quality of life, we'll pay for it in economic ways; we'll certainly pay for it in every other way.

So I'd encourage you to consider, in the development of the budget, those matters that relate to the early childhood development of children and certainly early incipient child mental health issues.

It's often said by people with mental disorders that their problem is less their mental disorder than it is employment and housing, and so whatever can be done to ensure the availability of reasonable and decent housing, particularly for people who have serious mental disorders, and opportunities for either employment or proper income support is vitally important. Pouring money into the treatment side of the system simply isn't a good economy if those other things are not there.

A moment on forensic services, those areas where people are in touch with both the mental health system and the courts: Those systems have been badly fragmented over many years. I worked for 20 years in the correctional services system here in Ontario and experienced it close up. We need to do a great deal there in the planning of the devolution of provincial psychiatric hospitals and the development of those services to ensure that forensic services, appropriate ones, are available to the courts and available to our communities.

I think I won't say more.

Mr Kelly: Just in summary, thanks again for the opportunity to make this presentation to you today. Let me repeat our four principles that we believe in: (1) that the CMHA—Ontario Division supports the principle of deficit reduction; (2) that the government's key goal should be to preserve the protection afforded to the most vulnerable people in our society; (3) that there should be a single point of accountability within the government for children's mental health services; and (4) that in order to maintain the overall health budget at \$17.4 billion and to retain the mental health envelope, there must be effectiveness, efficiency and economy in spending, and the reallocation of funds from institutions to the community.

Thank you for your time.

Mr Carr: Thank you very much for a fine presentation. One of the problems we've got in the present system—and I'll try to be as quick as I can—is that right now hospitals make decisions on the mental health services that are going to be provided. Mental health services historically, in the broad sense, have been one of the more expensive programs because of the tremendous need. So that when cuts were made—and I think of the hospital in our area. When they looked at it, they said, "Okay, we're going to cut it out because of the budget constraints," with no planning for where people would go. Some of the tough measures, including Bill 26, will allow the ministry to coordinate those services and, say, if Joseph Brant gets rid of it, Oakville-Trafalgar will. Up till now, they haven't because the board has only cared about its own particular area. In light of some of the circumstances that your program may be one of the ones cut, do you support this idea of planning outside of these silos, like we've done in the past?

Mr Thompson: Let me respond to that, if I may. We were speaking earlier today, some of us, to the individual

within the Ministry of Health who's looking at the devolution of provincial psychiatric hospitals and saying, "Maybe what you need is a mental health restructuring group, area by area or region by region, around the province." Certainly someone needs to take charge of that process that will happen in the general health restructuring apparatus and bring the people to the table. So we'd very much encourage that the government take charge of that and not simply devolve the hospitals and let things happen as they may or they may not.

Mr Carr: With regard to where you see some of the services—and I asked this before—mental health services, children, they have Education, some is in some Comsoc and it's in health care. I think one of the ways to manage it will be in the health care for adults. What about for children? Do you think more can be done in the education system? Where should some of the children's mental health services go? Can they be across these three ministries if at all?

Mr Thompson: I think the important area of organizational structure is the community, and it's essential that the services that are delivered in Thunder Bay, for example, be understood by the community of users in Thunder Bay, and that, as is happening with long-term care, a reduced number of access points occur. That ability to get into the system to find it and get into it is more important, in my opinion, than the upper-tier government or the provincial government organization, though we think that it's very important to create one place in the provincial government itself that is the focus for children's services. But if that isn't replicated or mirrored at the local level, then probably not much will look different to the person who wants the service in Thunder Bay.

1700

Ms Castrilli: My question really springs from my experience as a former member of the Lieutenant Governor's Board of Review. You will know that individuals kept on a Lieutenant Governor's warrant are among the most seriously ill in our community, having been found either not guilty by reason of insanity or unfit to stand trial of various crimes. As you know, there are different types of institutions and different serious levels of institutions. One of the issues that inevitably came up was the movement of people from one institution to an institution that was less secure. Inevitably, there was difficulty in placing these people in a timely fashion.

One of my concerns, as I look at what's happening in health care, is, what will happen to individuals as funds shrink, as institutions really can't cope? There are no places for them. What happens to those individuals? I should say that in virtually every case the common thread among those individuals was what you called disadvantageous living accommodations, particularly in early life. Do you worry about that? I think there's a reason for the public to be concerned, but I'd be interested in your views on that.

Mr Young: Could I take a first and perhaps only brief small piece of your question? I think the first and most important distinction to draw is between the forensic situation as such and the general situation. I think it's dangerous to mix them because they can lead you perhaps in opposite directions. That's my first point.

My second point is that we have under way at the moment a study into the forensic situation involving multiple ministries, and while that final report is not yet available, my hope and expectation is that it will deal uniquely and exclusively with the problems of the forensic population.

There are not only mental health issues involved; there's the whole question of public safety. There is the whole question of the safety and wellbeing of people providing care and services to that population. For that reason, what I want to do is not avoid your question but make sure that we separate it from the large body of people who are not forensic people at all. I think a separately funded system for the forensic category which takes into account all of these issues, public safety and all sorts of things, is appropriate.

Ms Castrilli: So you'd advocate separate funding for the two?

Mr Young: Yes, very much I do.

Mr Gerretsen: Would you agree then that basically what's required is that before we start letting people out of the psychiatric hospitals—I think there was a major movement of this in the late 1970s as well. One of the biggest areas of complaint at that time was the fact that once these people came out in the hope of reintegrating them into society, there were almost no services for them, and a lot of those people ended up being in a lot worse situation than they would have been if they had simply remained institutionalized. Is that one of the fears you have?

Mr Young: Yes, absolutely and categorically. The deinstitutionalization process that occurred from the late 1950s through whatever, the 1960s and early 1970s, brought about in large part because of the tremendous advances in the available medications, was in retrospect an absolute, utter disaster for precisely the reason you state. If I may tie my answer in just a little to the question Mr Carr had earlier, it has to do with silos and the failure of planning. The deinstitutionalization then and now will fall on its face and be a total disaster if there isn't a careful integration of planning and of services. That is precisely at the essence of the mental health reform process, is trying to build exactly such an integrated planning system. Did I answer your question, sir?

Mr Gerretsen: Yes.

Mr Martin: I'm going to try and get two questions in quickly, if I might. One is in reference to your point of supporting the government in its efforts to reduce the deficit at the same time as raising a red flag re the question of who it targets in doing that—the poor and the vulnerable. In light of the dichotomy that's there and the speed at which this government is moving and the depth of the cut and of course the engine that's driving it all—the tax rebate—what would you tell this government in preparing for the budget of 1996 that would tie all that together and express most adequately your position?

Mr Young: I think there are important issues of public policy which you raise, sir, which it is not really our place to deal with. Choosing political priorities is, after all, why we have elections and legislatures. I quite candidly would say that in a perfect world I'd be here asking for more; of course I would. But by the same token, I don't know that it's a responsible position for a

body like ours to take. So that when we say we support it, as we have done in preceding years, as the record will show, it's in an attempt to balance, if you will, the total set of issues.

The second thing is that yes, if you only have 100 units, then use it for those who most need it. If you have 200, we'll help you spend it, but if realistically you only have 100, here are our proposals as to how to go about it. I'm not trying to avoid your question.

Mr Martin: You've done it, though. I'd suggest that if we had more time we could talk about the impact of not focusing on your second concern re the long-term cost, eventually, to the system.

You talked about the determinants of health in many interesting ways and so did the presenter before you. I think it's important that we understand those. You mentioned specifically the question of housing, and I think we've seen the result of poor planning. Mr Gerretsen referred to that in his question re the deinstitutionalization that took place in the 1950s and 1960s and how we didn't plan and we didn't know, actually, what was going to happen down the line. Today we have people, some of them victims of decisions made back then, sleeping on the streets of our city. Three of them froze to death over the last couple of weeks without a whimper from this government as to a review of why that happened. This government is proposing to move out of the area of public housing and turn it over to the private sector and either get out of or change the system of rent control that we have at the moment. Do you have any concern re that whole thrust?

Mr Young: I referred earlier to this document. I can only say, and I say it equally to the committee as a whole, the case that is made here for the social determinants of health is quite unequivocal. It makes it abundantly clear that issues like housing—clearly, income first, housing, clothing, employment, education, dealing with child abuse, dealing with violence, dealing with all of these things, are fundamental determinants, and I totally agree with that.

One of the reasons we talk about single-point accountability for children's health, one of the reasons we talk about the criteria of effectiveness, efficiency and economy, is that they lead you back to the central issue of accountability and evaluation. One of the great weaknesses of too many government programs historically is that they haven't established accountability and they have not been based on valid analyses of effectiveness over time. So one of my hopes is that if we could get those criteria built in, then the system would self-correct to devote more time to the determinants of health. So I come the long way around of saying, yes, you're dead right in that sense. Nothing would please me more than to see whatever funding is available focused much more clearly on the specific things that the facts demonstrate determine health, including mental health.

The Chair: I'd like to thank the Canadian Mental Health Association for coming in and making a very thorough presentation to us this afternoon.

Having completed our agenda for today, we will stand adjourned until 9:30 sharp tomorrow morning.

The committee adjourned at 1711.

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**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Bassett, Isabel (St Andrew-St Patrick PC) for Mr Arnott

Carr, Gary (Oakville South / -Sud PC) for Mr Sampson

Crozier, Bruce (Essex South / -Sud L) for Mr Phillips

Marland, Margaret (Mississauga South / -Sud PC) for Mr Martiniuk

Martin, Tony (Sault Ste Marie ND) for Ms Lankin

Also taking part / Autres participants et participantes:

Fisher, Barb (Bruce PC)

Gerretsen, John (Kingston and The Islands / Kingston et Les Îles L)

Hampton, Howard (Rainy River ND)

Hoy, Pat (Essex-Kent L)

Clerk / Greffier: Carrozza, Franco

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Drummond, Alison, research officer, Legislative Research Service

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Journal des débats (Hansard)

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**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Pre-budget consultations

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LEGISLATIVE ASSEMBLY OF ONTARIO
**STANDING COMMITTEE ON
 FINANCE AND ECONOMIC AFFAIRS**

Thursday 15 February 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO
**COMITÉ PERMANENT DES FINANCES
 ET DES AFFAIRES ÉCONOMIQUES**

Jeudi 15 février 1996

The committee met at 0933 in room 151.

**PRE-BUDGET CONSULTATIONS
 ROYAL BANK OF CANADA**

The Chair (Mr Ted Chudleigh): This morning we welcome the Royal Bank of Canada as an expert witness. We will have 45 minutes together, gentlemen. I understand you're going to start with a presentation, and then perhaps we will have an opportunity to ask some questions. Identify yourself for Hansard at your first opportunity. Thank you very much.

Mr John McCallum: My name is John McCallum. I'm chief economist at the Royal Bank.

Mr Carlos Leitao: My name is Carlos Leitao, and I'm an economist with the Royal Bank.

Mr McCallum: I'd like to thank you for the invitation. I'm pleased to be here. I'd like to spend not more than 15 minutes, if that would be appropriate, in opening comments and leave lots of time for questions.

I was thinking before coming here about how to address this issue as an economist. Just to give first a broad outline, it seems to me there are two big issues. One big issue is how to deal with the deficit and debt. The second big issue is the way to go about it, taxes versus spending.

I think on the first point it's really quite easy and quite simple, that there's an all-party consensus across this country that somehow or other one has to get the deficit and debt under control. That seems to me to be more or less uncontroversial these days. But the second question of how to go about that is much more controversial. I think the answer to that is about 75% politics and 25% economics.

We see a spectrum across the country. At one end we have Saskatchewan, which balanced its budget through a mixture of tax increases and spending cuts; in the centre we have, let's say, Paul Martin and perhaps Ralph Klein, who focus mainly if not exclusively on spending cuts; then at the other side of the spectrum we have the government of Ontario with tax cuts as well as spending cuts which are larger because of the tax cut. So all of those parties agree on the need to get the fiscal house in order but have very different ways of going about it.

My view would be that this spectrum, from Roy Romanow to Mike Harris, is at least 75% political. The government of Ontario was elected with a clear mandate to go about this approach perhaps, as was Roy Romanow perhaps to go about this different approach. As an economist, it seems to me my job is not to question or discuss or debate the grand lines, because those have

been established in an election, and my view on that is kind of irrelevant and unimportant on those global issues.

So what I thought I'd do is focus more narrowly to talk briefly about the economic assumptions and risks involved in the budgeting process, to say a little bit about what we think the numbers mean in terms of ability to reduce taxes and then to spend most of my time on the implications of all this for the level of economic activity and jobs, which of course is of primary importance.

In terms of the economic assumptions, the full picture is not yet on the table. It's a little bit like reading tea leaves; we have some information but not a complete package yet. But from the information we have, it seems to me that the basic underlying assumptions are reasonably prudent, not that different from our own, not that different from mainstream forecasts in terms of what is assumed about gross domestic product, which is very important for the revenue side, and what is assumed about interest rates. Those seem more or less in line with what people are saying today.

But I would emphasize that the downside risks are greater than the upside risks, that the Canadian economy and the US economy appear weaker now than they did some months ago and that one should err on the side of caution in these forecasts. We just had bankruptcy statistics yesterday. I think the consumer remains extremely weak, so I would err on the negative rather than the positive in terms of looking forward for the economy. I think one also has to bear in mind the wild card of Quebec. We're assuming that there won't be a great resurgence of the political uncertainty over the coming couple of years, but none of us knows that. So that is a wild card that could enter the picture and put the interest rates and possibly growth assumptions into disarray.

In terms of what the projections imply, we looked at this, and our analysis gave results not terribly different from those of Mr Gerry Phillips. We think that, given the assumptions and the deficit targets, it would be possible to have a tax cut in the order of \$2 billion in 1996-97, given the proposed spending cuts and given the deficit assumptions. But we also think that before the full tax cut was delivered, one would need to have additional cuts, if our projections are right, perhaps in the order of \$1.7 billion by 1998-99. I should emphasize these numbers are based on incomplete information and they're fairly crude, so I wouldn't stand or die by them.

0940

Finally and most important, in terms of potential contribution that I could make, I'd like to just make a few comments on the relation between the budget process and the level of economic activity or employment in Ontario and I'd like to address three issues on that topic.

The first is whether from this economic point of view it's better to do the spending cuts quickly or gradually, and the second would be whether it's better to have the tax cuts front-end loaded, fast or gradual, more slowly. That question of the timing of tax cuts is critically dependent on what one assumes about other things, so I'd consider that under two categories.

First, the timing of the tax cuts: If we take the deficit targets as a given, because that means more tax cuts would require more cuts in government spending and, second and quite different, what about the timing of tax cuts if we take the spending cuts as given? In the first case more tax cuts would mean more spending cuts, in the second case more tax cuts would mean a higher deficit, and those are two quite distinct and different cases to consider.

Let me begin with the quick versus gradual spending cuts. I guess the conventional wisdom, if you just plug into an econometric model, would be that gradual is less disruptive of the economy, particularly when the economy is weak as it is today, and that very large and abrupt and sudden spending cuts would be more damaging. There's a lot of truth in that. It's a kind of commonsense argument.

But I think there's another aspect that one should consider, and let me just give you an example. Suppose you had 100 people in a room and you announced to those 100 people, "Well, 25 of you will lose your jobs," or whatever number, 20, 25, 30, "but we won't tell you which 25 for three years," as opposed to saying 25 will lose their jobs and you name them right away.

In the one case you get it over with and the 75 remaining will have some assurance of job stability. In the other case you've got 100 people worried about their job for three years or two years, and if one of the problems of the economy is consumer confidence, you've got 100 people feeling insecure for a prolonged period of time, as opposed to the first case where the 75 at least would know that they had reasonable security. I don't know quite how this nets out, but I think that in terms of getting it over with and giving a certain amount of stability and confidence to those who remain, a case could be made on economic grounds for front-end loading the spending cuts.

The second question is taxes sooner or later given the deficit. Again I'll contrast the conventional view with questions that might question that conventional view. This case where we talk about tax cuts given the deficit implies that if you go faster on the tax cuts, you have to go faster on the spending cuts. Again, the conventional view would be that if you're worried about economic activity and jobs, you'd go slower on the spending cuts and the tax cuts rather than faster because the conventional view would be that the net impact of a tax cut financed by a spending cut would not be positive. If you take \$1 away from a civil servant and give the \$1 away to somebody in a tax cut, what will be the net effect on spending? The conventional view would probably be negative, that the reduction in spending by the civil servant would be greater than the increase in spending by the taxpayer.

But again it's not clear that that will necessarily be the case because there are certain psychological or non-quantifiable things which could take it the other way. I mean in particular, if the government is trying to sell itself as making Ontario open to business and thereby attracting more foreign or even domestic investment, which would be good for jobs, then the fact that the tax cuts have actually been delivered, in combination with other measures that the government is taking, could be taken by investors that Ontario was again open for business, pro-business, and that could be a positive fact, attracting that investment, and it's very hard to quantify.

We don't know quite how investors would react, but if that were part of the selling package to potential investors in the Ontario economy, then it could have a positive effect, which would conceivably offset this conventional effect. Taking a medium- or longer-term view, it's clearly important from a competitiveness point of view that the tax situation be competitive with other provinces and, perhaps even more important, with neighbouring states, now that we're into a NAFTA world; and it's clear that historically and today, the burden of taxation in Ontario is high relative to other provinces and even higher relative to certain competitor states. But that's a more medium-term argument, as opposed to the direct argument exclusively concerned with the timing of the tax cuts.

The final point I would like to make, and that will be the end of my initial comments, is the question again of the timing of tax cuts, this time not assuming a given deficit, but a tax cut sooner or later, assuming a given spending cut. So in this case we're asking, should we cut taxes faster or slower, given that the speed of those tax cuts will impact on the size of the deficit?

Here again the conventional wisdom—I'll start again with the conventional wisdom—is that if we bring in the tax cuts faster and thereby allow the deficit to be higher or to come down less rapidly, that would give some net stimulus to the economy because we're giving people back more money and we're not cutting spending. In return, we're just allowing the deficit to be a bit higher than it otherwise would be, and the conventional wisdom would be that this would help consumers and cause spending to be higher and that would be good for jobs.

The counterargument, of course, is that there are costs in not bringing down the deficit. I said at the very beginning there's almost now conventional wisdom across the countries, across all political parties, that we have to get the deficit under control, and I think there would be a significant risk if Ontario were to have higher deficits than the ones that have been announced in the plan, given that the speed of reduction of the deficit is not terribly rapid in comparison with what other, poorer provinces have succeeded in doing.

There would be a risk that people would not even regard those tax cuts as permanent, necessarily, if they were accompanied by a higher deficit, and if people think the tax cuts are not permanent they would tend not to spend them more. So you wouldn't necessarily help the economy that much. There would be risk to the credit rating, and also the argument that Ontario is open for business would be weakened if it were perceived that this

deficit was going up again, or at least not coming down from the high level that it's at. So it might jeopardize the general program or the general effort to sell Ontario as a good place for business to invest.

I guess if you allow the deficit to go above the targets by means of a more rapid than otherwise reduction in taxes, in the short term that could get a little bit of extra economic activity and consumer spending, but I think in the medium term there would be important concerns arising from (a) the credit rating, (b) the feeling by consumers that the tax cut might not be sustainable and (c) the effort to portray the province as now being open for business and a good place for business to invest with confidence.

I'll leave it at that, Mr Chair. Thank you very much. I'd be happy to answer any questions.

The Chair: Thank you very much, Mr McCallum. Ms Castrilli, since you were, I hate to say late—

Ms Annamarie Castrilli (Downsview): I wasn't late but my colleague wasn't here.

The Chair:—would you like to begin with the third party and rotate that way, if that meets with the acceptance of the committee?

Ms Castrilli: I'd be happy to defer to the third party for the moment. Thank you.

0950

Ms Frances Lankin (Beaches-Woodbine): There's an old joke about the definition of an economist and I can't remember what it is, but I think I just witnessed it: "On the one hand, and on the other hand." I remember discussions with Treasury officials that went much like that when we were struggling through the budget-setting process.

A couple of questions came to mind immediately as I was listening to you. I think the one thing you do feel strongly about is that if the government was unable to meet its own deficit-reduction targets as a result of proceeding with the tax cut at this point in time—ie, they felt they couldn't take greater spending cuts to balance it—you would argue against that; you would say, probably, stay with the deficit-reduction targets as a more important goal than the tax cut at this point in time.

Mr McCallum: I would certainly say it would be more prudent to wait until you're sure those deficit targets will be hit, especially given the fragility of the economy, the uncertainties over revenues, even the Quebec situation, and the reaction of financial markets, credit rating agencies and all of that.

Ms Lankin: It's always important for us to put the Ontario economy in the context that you just spoke of: what's happening certainly internationally; keeping our eye on the States and what's happening there, given that so much of the even very small growth we have in the economy right now is being led by exports; the Quebec situation; what the Bank of Canada does with monetary policy. All of those things are critical and have an impact much more profound than what the provincial government may do around the edges of the plan as long as they're moving in the right direction as far as the financial community and bond rating agencies and others are concerned.

But in terms of our local economy, one of the critical things is the balance between the return of business confidence and of consumer confidence. I think that business confidence will be more quickly returned—I'm taking your argument here—if the government takes the more prudent route of keeping to those deficit-reduction targets. In fact, I would argue it might be more sensible to forgo the tax cut at this point in time in terms of the income tax cut and to concentrate on the deficit, but that's a difference in opinion.

On the consumer confidence side, there's no doubt that the approach of the government in terms of spending cuts, in terms of the job reduction that will necessarily result from that in their own workforce as well as in the broader public sector—when you put it all together, that's 900,000 people across the province who are wondering what's going on. If the government takes the additional \$1.7 billion that you talked about in spending cuts in order to finance the tax cut and keep to their deficit targets—and I know those are preliminary estimates—I worry about the economic drag that's going to result from that and the continuation of the lack of stability in consumer confidence and in the sense of economic security of families and communities. Could you talk a little bit about that and how we could try and meet that fine balance that's required?

Mr McCallum: In terms of the additional spending cuts required, the government doesn't have to make a decision on that yet because there's room for at least some tax cut within the parameters, if the government cuts as it seems to be saying it will, for 1996-97. So it's possible to have a tax cut, according to our crude numbers, maybe in the order of \$2 billion in 1996-97 if the spending cuts are carried out and still meeting the deficit target. Farther down the road, in 1998-99 and 1997-98, there may have to be further spending cuts, but I think there may be major changes in the economic situation by then, so those numbers are very much unclear at this point.

In terms of your general question, yes, I think there is this tradeoff here, but one doesn't know for sure what direction it will go. I think across the country, federally and in the provinces, in hindsight we did a really silly thing by building up the debt in the relatively prosperous years of the 1970s and 1980s, only to have to cut it in the less prosperous years of the 1990s. In hindsight, it was a terrible policy act across the country by virtually every government. Now we're in this mess, what do we do? If we cut fast, we lose jobs and confidence and get problems in the short run. If we don't cut, we delay the problem and perhaps allow it to worsen and fester.

Ms Lankin: Just on that, because you mentioned two possibilities there: There's a third one, which would be the spending cuts as they have been set out forgo the tax cut at this point in time, and see the deficit come down much more dramatically and much more quickly than under the current government's proposed plan.

Mr McCallum: It's kind of strange that you'd be taking that position and I'm taking the other position.

Ms Lankin: Well, isn't it an interesting point?

Mr McCallum: You're saying let the spending cuts happen, forgo the tax cut and let the deficit come down

faster. It's true that a lot of people in the financial markets are saying just that. I'm perhaps less conservative than some on Bay Street, which isn't necessarily saying very much, but I would tend to think that yes, we have to meet the—

Ms Lankin: And far to the left of the group sitting across from me here, so don't worry.

Mr McCallum: We have to meet the deficit targets—you and I agree on that—but I think if we have spending cuts that allow a tax cut while at the same time meeting the deficit targets, from an economic activity point of view let's have the tax cuts. We sure need extra economic activity, and those tax cuts would put more money into people's hands and that would help the economy.

Ms Lankin: Yes. Let me ask you about that. You're right that we both agree on meeting the deficit targets. I'd actually like to see the deficit targets met a bit earlier than what this government's proposed plan is, but that's neither here nor there; we're dealing with the plan that's in front of us. I think you're also right, I would agree with you, if you can accomplish the spending cuts as the government set out—ie, no cuts to health care, no cuts to classroom education, no cuts to law enforcement—and meet the deficit targets and finance the tax cut, that's great too. I don't believe you can do that. I'm sorry, there are no free lunches. I spent a few years struggling with some of those numbers and I don't think that is doable. Seeing the cuts the government is making that go against its own commitments on those areas—that's not doable.

Mr McCallum: Then maybe the differences between us are minor, because I agree with you. If for whatever reason the spending cuts are not doable, then I would delay the tax cut rather than allow the deficit to rise.

Ms Lankin: You said that if it is doable, you would like to see the tax cut proceed because of the economic stimulus. It seems to me that the one thing economists probably would agree with, wherever they come from on the spectrum of opinion, is that there will be a lot of—I don't know the term that's used—leakage from that tax cut, that a lot of it will go to vacations or investments and not direct stimulus of production. Is there an alternative form of tax cut which would be more stimulative to the economy?

Mr McCallum: I certainly agree that Ontario is a very open economy, so any kind of tax cut will have a lot of leakages to imports etc, but all I'm saying is that the tax cut would give some stimulus. Whether it would be a lot or a little is unclear. Well, it's not unclear; it depends on the size of the tax cut. One can make estimates. But there will obviously be leakages whatever the form of tax cut.

Ms Lankin: It's pretty unclear to us. We can't get any estimates from the government on what the stimulus is.

Mr Jim Brown (Scarborough West): Would you agree that small and medium-sized business creates 80% to 90% of all new jobs?

Mr McCallum: A very high fraction of new jobs, yes.

Mr Jim Brown: A great proportion of all new jobs?

Mr McCallum: Yes.

Mr Jim Brown: We've had numerous groups that have commented and made presentations, small business and medium-sized groups, the hotel people and restaurants. They've all said there is a real non-existent source

of capital and that their expansion plans are dependent upon sources of capital. In the major chartered banks, that is pretty much the only source of real capital, yet with high interest rates, many small business people would say that the high level of bankruptcies is caused by a self-fulfilling prophecy on behalf of the chartered banks. You probably disagree with that.

I'm concerned that we will do all these things, we'll do the tax cut, we'll reduce the deficit and so on, we'll have the demand and we won't have the source of capital that's economic. Really, the chartered banks are the ones on the hot seat in this case. I'm really fearful that the chartered banks are going to limit job creation.

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Mr McCallum: I'm not a politician nor a banker, I'm a simple economist, but I'll try to answer your question. It's not right to say that the banks are the only or the dominant source of capital. The banks are the dominant source of certain kinds of loans, but venture capital and other sources of capital are extremely important as well.

I believe it is true that in the past, particularly following the recession of the early 1990s, the banks' behaviour vis-à-vis small business left something to be desired and still could be improved, but the banks have made adjustments, improvements, new programs, with respect to knowledge-based industries, venture capital funds, other initiatives, partly in response to political pressure—I certainly agree with that. The banks are working pretty hard now to try to accommodate the needs of small business and I don't see why, as economic conditions improve, the banks wouldn't be there to help finance small business.

But banks are by no means the only parties involved in this. There is venture capital and other forms of long-term equity capital which are not primarily the business of the banks.

Mr Jim Brown: But if the banks don't show any confidence, the other sources don't show any confidence either.

Mr McCallum: I don't see any reason to think the banks won't show confidence.

Mr Jim Brown: They haven't.

The other thing is the high level of interest rates. In fact OPSEU came in and said that the ability of the banks to create money, based on you keep 8% or 10% on deposit and you can lend out 100, really means that with higher interest rates the profits of the banks become even more, so there's an incentive really to have higher interest rates; the profits go up with high interest rates.

Mr McCallum: There I know, as an economist, that's not right, because the banks don't make money as a function of the level of interest rates, the banks make money as a function of the spread between the interest rate they charge and the interest rate they pay, so banks don't do terribly well when interest rates are sky high. For one thing, sky-high interest rates damage the economy and more people can't pay back their loans. Banks are doing quite well now and interest rates are historically relatively low today and getting lower.

Mr Jim Brown: But if you can make 12% on \$100 and you only have to give out 7% on the \$8 you have to keep in your till at any time, the spread is quite dramatic,

and as interest rates go up, it becomes even more dramatic.

Mr McCallum: But the spread doesn't necessarily go up when the level of interest rates goes up. The point I'm making is that the interest rate could be 5% or 10% or 15%; that doesn't tell you anything about how much money the banks are making. It all depends on the spread between the cost of funds to the bank and the interest rates charged. Historically, the banks have not done better when the general level of interest rates has been high. The banks, as I said, are doing quite well today and the interest rates are relatively low.

Mr Wayne Wettlaufer (Kitchener): John, the deficit we have now is \$100 billion, and in spite of the deficit-reduction program we have, we still see that deficit growing to \$120 billion by—

Mr McCallum: The debt.

Mr Wettlaufer: I'm sorry, the debt, yes. We see it still growing.

Mr McCallum: It's not that bad, the deficit, thank goodness.

Mr Wettlaufer: We see it growing to \$120 billion by the year 2000 and 2001. Could you speculate on what it might grow to if we did not have our deficit-reduction program in place.

Mr McCallum: Higher. But the general point I would make is don't just look at the debt in dollars, look at the debt in relation to GDP because GDP is the capacity to pay back the debt. According to our estimates, that debt-to-GDP ratio will start to come down, albeit slightly, in 1998-99. The trouble with these projections is that virtually every fiscal projection you ever see has that debt ratio coming down some time out into the future, so we'll have to wait and see whether it happens.

If the government carries through on its actions, it'll at least start that debt ratio turning down and I think that's very important, because you add that debt ratio to the federal debt and it's over 100% which is one of the worst in the industrial world.

I don't think this is controversial. As I said at the beginning, all parties agree on the necessity to put the fiscal house in order and the Ontario program will—if the projections are correct, that ratio will start to decline in a couple of years.

Mr Wettlaufer: Could you give a comparison of our debt-to-GDP ratio compared to our neighbouring competitors, the states and the neighbouring provinces?

Mr McCallum: In 1995-96, Ontario's debt was 30.9% of GDP, which is lower than every province east of Ontario and lower than Saskatchewan; it's higher than Manitoba, Alberta and BC. So Ontario's problem is not so much that it has an out-of-line debt, but it has an out-of-line deficit which is making that debt grow really fast. In a sense 30% is too high; when it's added to the federal it's over 100%. Some provinces like Newfoundland, for example, with 54%, at one point could hardly borrow at all because that debt was getting totally out of hand. Relative to other provinces, Ontario is not out of line in terms of debt, except one could say all of the provinces are out of line.

The problem Ontario has is that deficit is so big it's making that debt skyrocket up and the current programs

I think are designed to address that issue. I don't have the numbers here about state debt but generally states are far indebted than provinces so they don't have this same problem. Moreover, for the federal government in the US, its debt relative to GDP is somewhat lower than for our federal government.

Our fiscal situation is worse than the US, there's no doubt about that, which creates a problem because we have to compete with them. With a higher debt, we have to have higher taxes to finance those higher interest payments, and that reduces our competitiveness vis-à-vis the Americans. For Ontario, it's becoming at least as important to compete with Ohio and other states as it is to compete with provinces to the east and west.

Mr Gary Carr (Oakville South): It's a pleasure to have you here again. Also, as a constituent, I appreciate you and your fine advice. I also want to thank you; I remember meeting with Mr Harris and you, as we were putting the Common Sense Revolution together and deciding on the tax cuts, and you were giving your input.

I hate to do this to a constituent, but if I could put you on the spot and ask you, if you were the Premier or the Minister of Finance of this province—I guess ultimately the Premier—and you had the choices you've laid out very clearly here between further reductions of \$1.7 billion and doing the tax cut—you've laid out both options very clearly—what would you do in terms of the tax cut and the spending cuts?

Mr McCallum: I really hate to disappoint my own MPP—

Mr Carr: As long as you vote for me, you won't.

Mr McCallum: —but it's 75% politics and 25% economics, as I said before, so I'm not here to be a politician or to pretend to be a politician. You may think this is a copout, but as an economist I think my job is to lay out economic implications. If I were Premier, I'd be at least 75% politician and so my answer might be rather different. If you ask me whether I would go ahead with the tax cut, I don't know. It depends on my own politics and I don't want to introduce my own politics into the discussion.

1010

Ms Castrilli: Mr McCallum, it's very useful to have you here today. What we are trying to do is gauge a wide variety of opinions and put them in context and try to give some advice to the government. We've had, over the course of the last two weeks, as you might imagine, a wide variety of opinions as to what that advice ought to be. I think it would be very useful to put to you some of the evidence that has been put to us and ask for your comment to help put that in context.

One of the issues that has come up is that there is likely going to be a very slow growth in the economy in the foreseeable future, and that that, coupled with a rigid monetary policy, will make it virtually impossible to meet deficit targets and get out of the economic dilemma we're in. I wonder if you might comment on that?

Mr McCallum: I wouldn't call the monetary policy rigid, for one thing. I think the Bank of Canada knows as well as anybody else that the economy is very weak, that inflation is not a problem, and they're doing everything

they can to get interest rates down as fast as they can. If they go too fast, it's going to boomerang on them, as has happened sometimes in the past. We already have a zero gap, more or less, between short-term rates, Canada and US. I think the Bank of Canada is doing as much as it can, but it can't do much more than it's doing.

Fiscal policy is in a straitjacket really for deficit reduction reasons, and what other instruments do we have? We have the Team Canada approach, which might help our exports. We have structural policies which are critical to improve training, education, to adapt people to the new world and all of that. I agree with you basically that the instruments governments have to create jobs more rapidly are limited and we are into slow growth, but I think that the projections we've been discussing are realistic and that we can make progress and have some reduction in taxes and all of that even with slow growth. If the growth gets even slower and we have a recession, then clearly we'd be in the soup. I think that's unlikely, but certainly not impossible.

I think we're on a sustainable track in all likelihood, but we have to be aware of the risks that things could get worse than they are today.

Ms Castrilli: You believe that the government projections are realistic in the circumstances.

Mr McCallum: They're just a touch more optimistic than us—

Ms Castrilli: How much of a touch?

Mr McCallum: —not that we're the font of all wisdom, but I think the government projections are, by and large, very close to the private sector consensus.

Ms Castrilli: Another issue has come up with respect to the tax cut itself: We've had a great deal of evidence that tells us that the average per Ontario family is around \$1,100. More than half of that would go to families with annual incomes of over \$90,000 a year, which are the top 13%, and the average cut for those families would be about \$4,400, and then there are all kinds of figures in between.

For the average family, because of the various surcharges and extra cost of services and service fees that will be levied, that will be pretty much eaten up so that there won't be that kind of spending in the economy the government is anticipating. Any views on that?

Mr McCallum: Clearly, if the question is that you have a given spending cut and you're asking, suppose we can meet the deficit target with this tax cut, should we cut taxes or not cut taxes? As I said earlier, I say cut taxes. Now, the stimulus from that might be massive, it might not be massive, but at least it will be in the right direction.

And I have no brief for any particular kind of tax cut. The government made a commitment in the election, the government was elected, so I guess it's committed to that tax cut. It's not necessarily the tax cut that would give the maximum stimulus.

Ms Castrilli: What tax cut would?

Mr McCallum: You're going to think I'm ducking the question, but it's really difficult to know—

Ms Castrilli: It really would help us to have an answer to that.

Mr McCallum: If you take again the conventional view and plug it into a macroeconomic model, I would say probably a tax cut that was more equally received, like a cut in sales tax, might have more economic stimulus. That would be the conventional view, and you'll get that, probably, if you put it into an econometric model.

But I think you have to think of other things which are not easily modellable and then the answer becomes greyer. There would be these confidence effects. There would be the ability to attract the bright people from the US to come here or prevent top people in terms of productivity from leaving Canada. There could be these effects on foreign investment, which are very hard to quantify.

The conventional answer to your question is that a sales tax would give more stimulus, I believe, but once you factor in these things that are difficult to quantify, it becomes more murky.

Ms Lankin: Mr McCallum, you've convinced me that I've become conventional.

Mr Monte Kwinter (Wilson Heights): I just want to pursue the tax cut. Yesterday we had a presentation by the economist at the C.D. Howe Institute, the senior policy analyst.

Mr McCallum: Bill Robson?

Mr Kwinter: Yes. He said that if the purpose of the tax cut is to stimulate consumerism, then he would unalterably opposed, that we have too much consumer spending at the moment and what we don't have is enough savings. The question then comes up, and I don't know whether you agree with him, but his proposition was that you get rich by saving, you don't get rich by spending. If that is the case, as a government, when you're giving this tax cut, when his supposition was that the last thing you want is more consumer spending, you want more saving, how do you do that? I don't know whether you agree with him, but you can comment.

Mr McCallum: Again, it's a long run versus short run. I think in the long run, if we save more, we'll get richer and that's good. In the short run, we need more economic activity, so I would certainly be in favour of more consumer spending.

Consumers are incredibly weak. Whatever Mr Robson might say, my opinion is that the economy needs people to spend more, and I think the solution to the issue is if we spend more and get activity higher, people will have higher incomes. If people have higher incomes, they can both spend more and save more. If we can get some growth going, there's enough extra income to save more and spend more, but I certainly think that consumers have been extremely weak and what we need now is more consumer spending. If we can get higher consumer incomes, that could be consistent also with more saving. But I would put more emphasis than Mr Robson, I think, on the need to get some growth soon, rather than the long-term question of savings rates.

The Chair: Thank you, Mr McCallum, for joining us this morning and giving us what the Royal Bank of Canada believes is the direction of our economy.

Mr McCallum: I'm afraid on many issues I had two hands, but thank you very much.

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BANK OF NOVA SCOTIA

The Chair: Our next expert witness is the Bank of Nova Scotia. Mr Gampel and Ms Webb, welcome. We have 45 minutes together this morning. I assume that you will be beginning with a brief and we'll move into questions afterwards.

Mr Aron Gampel: Sounds good. I'd like to read into the record a little brief we have prepared, and then, like my predecessor, we'll be willing to take your pointed questions.

Both Mary and I believe that Ontario has a big challenge ahead of it, strengthening the fiscal foundation in a soft economy. Recent data suggest that Ontario's economy ended 1995 on a soft note and is slow getting out of the starting blocks in early 1996. Even with the anticipated pickup in growth as the year progresses, provincial output will only manage to advance 1.7% in 1996 after posting an estimated 2.3% rise last year. Because of the early-year softness, cautious forecasts prepared just a short time ago may well prove to be optimistic.

The export locomotive, which has been largely responsible for pushing provincial output 5% above the prior peak established in the late 1980s, has lost some steam. The slowdown in the United States, as well as in Europe and Japan, is hurting because trade bulks so large in the Ontario economy. Exports of goods and services account for about 60% of provincial output, with almost 90% destined for the United States. Domestic producers are adjusting schedules to reduce bulging inventories.

Domestic demand has been unable to fill the gap. Ontario's economy has been buffeted by ongoing structural adjustments and intensifying fiscal retrenchment. Household spending has been dampened by a big erosion in consumer confidence and purchasing power. Retail sales and housing activity are still soft.

Early readings on the Ontario economy in 1996 are fairly sparse. Motor vehicle sales are beginning to climb from very depressed levels with the help of incentives. Businesses began to hire more workers in the fall, reversing the losses recorded earlier last year. However, the pace of job creation has slowed again, with just 12,000 new positions added to provincial payrolls in the three months to January.

Accommodative monetary policies in both Canada and the United States should help kickstart economic activity. The downtrend in borrowing costs will help boost affordability and underpin retail and home-buying activity. Strengthening US growth should bolster domestic orders in coming months, with a low-valued Canadian dollar keeping our products competitive. Tourism remains a big beneficiary of the currency realignment.

Motor vehicles and parts will continue to dominate Ontario's exports. Canada's auto and light truck production, which is largely based in Ontario, is expected to reach a record 2.5 million units in 1996. Ontario accounts for about 16% of North American assembly capacity but only 7% of purchases. Domestic assemblers enjoy a production cost advantage and a favourable vehicle mix; 45% of domestic capacity is geared to the popular vans

and sport utility vehicles which are likely to account for most of this year's growth in North American sales. The auto parts industry is expected to gain additional market share. The proportion of Canadian parts in each vehicle has already increased over 20% from the late 1980s.

High-technology industries are providing a further boost to the province's manufacturing capabilities. The production of electrical and electronic goods has soared almost 60% since 1992, riding the strong wave of business spending on office and telecommunications equipment. Wholesale trade has been buoyed by computer sales. Business services, such as accounting and engineering, have reported impressive gains over the past three years as they become increasingly focused upon export markets. Plastics and chemical manufacturers are expanding following big export gains to the United States over the past two years. Canada's first PET plant for plastic bottles, and that's those little bottles with the mineral water that we're all drinking, will be built in Millhaven this year.

Consumers have been reluctant spenders because purchasing power has been squeezed. Households have had to contend with job uncertainty, sub-par income gains, high household debt levels and diminished public sector spending.

One of the biggest constraints facing Ontario residents has been the lack of employment opportunities. While the private sector has been adding to payrolls, total provincial employment has been limited by the retrenchment in the public sector. Competitive restructuring has forced businesses to focus on boosting productivity through streamlining operations and implementing new technologies.

Ontario payrolls are still 44,000 below the pre-recession peak, even with the rebound in employment since 1992. The shortfall in full-time positions is even greater. Moreover, the job outlook is still quite soft. Help-wanted advertisements have been declining. Firms in the export sector are no longer big employment generators despite the outlook for further gains in this key sector.

Household incomes have also been held back by low wage settlements. Adjusted for inflation and taxes, incomes of Ontario residents have declined by nearly 1.5% in the 1990s. Discretionary income will be further pinched by the expected pass-through of some cost of public sector services.

The Ontario government's proposed cut in personal taxation would provide residents with some relief. However, the lack of specifics regarding the composition and timing of the tax cut makes analysis of its net impact difficult. There is no guarantee that Ontarians would fully spend their tax saving. Residents may opt to spend less and save more in this uncertain environment. Ongoing business restructuring, increased fiscal cutbacks by all levels of government and concern over programs such as the CPP will continue to reinforce consumer caution.

Some bounce-back in Ontario housing starts is expected this year, after falling to a 43-year low of 36,000 units in 1995. Homebuyers will benefit from improved affordability. Mortgage rates have tumbled three percentage points since early 1995. Home prices are still on the soft side. For Toronto residents, homeownership will

become increasingly attractive as an already tight rental market tightens further. Nevertheless, residential construction activity will continue to fall well short of the boom in the late 1980s.

Non-residential construction in Ontario will be supported by a number of major corporate investments. Auto and minivan capacity is being expanded. The demand for modern workspace is increasing, but the recovery in office construction will be limited by the large amount of government office space anticipated on the market over the next few years.

The province's economic performance differs widely among regions. While the greater Toronto area remains the dominant force in provincial output, other regions have made sizeable gains in attracting and expanding business activity. Only two of Ontario's major regions, central and northern Ontario, have recorded sizeable employment increases in the 1990s.

Central Ontario has been the clear winner in the job-creating sweepstakes. Auto and parts manufacturers have expanded their operations. The region has become an attractive investment destination for high-growth, high-tech firms, compensating for the rationalization of traditional manufacturing industries. There has been diversification into new growth areas, such as medical products and services.

Northern Ontario has benefited from the expansion of its primary industries. Mining and forest products producers have responded to the pickup in global demand for commodities and higher prices.

Eastern Ontario has eked out only minimal employment gains over the past five years. The region has developed into one of Canada's top centres for computer services and telecommunications, but federal downsizing and the consolidation of industrial capacity have offset much of these gains.

The southwest region has struggled to reverse the job losses incurred at the beginning of the decade. Manufacturing has been given a boost by the expansion of auto-related production and parts facilities. The Windsor casino has helped revitalize tourism in the region.

The greater Toronto area was hit hard during the early-1990s recession. It has been slow to recover even with the auto sector regaining its momentum. The region has made some inroads into reducing its dependence on traditional manufacturing industries by shifting to higher value added services. Restructuring should enhance the region's position as a major North American manufacturing and service centre. However, intensifying public sector cutbacks will be a factor dampening growth in this region.

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Ontario's fiscal dilemma is severe, but not unique. Even with big cuts in program spending, the deficit is still forecast to remain above \$9 billion in this fiscal year and \$8 billion in the next fiscal year. Other governments too, both here and abroad, are grappling with debt-induced budgetary strains. Many jurisdictions are contending with an underperforming economy. They are all dealing with volatile financial market conditions.

Ontario is relying on cutting expenditures to tackle its deficit problem, mainly because spending is still way out

of line with the revenue-generating capacity of the province. The government's fiscal plan calls for outlays to be reduced by about \$5 billion through the next fiscal year. Most other provinces have already put the big squeeze on program spending, enabling six provinces to balance their budgets or realize surpluses. Federal and provincial outlays are slated to fall by over 2% in the current fiscal year.

Are there other ways for Ontario to deal with its fiscal problems? A period of strong and uninterrupted economic growth would help, but Ontario will be hard-pressed during the remainder of the decade to match the annual growth of over 3% experienced during the 1980s expansion. Policymakers have little room to raise taxes. A large share of retail and renovation transactions have already gone underground. Maintaining a competitive tax regime is essential. Ottawa can offer no support, since planned cuts in federal transfers will necessitate additional rounds of provincial belt-tightening.

Lower interest rates also would help, particularly if they trigger a strengthening in economic activity. Yields have been trending lower in response to the softness in activity on both sides of the border and further declines are likely through midyear. The province will realize some interest savings from the lower rates, though the structure of Ontario's debt is significantly longer-term than the federal government's. Furthermore, over 6% of Ontario's outstanding bonds must be refinanced in fiscal year 1996-97.

How have other countries dealt with their budgetary problems? A recent study of 20 OECD countries between 1960 and 1992 identified two common characteristics in the fiscal policies that accomplished sizeable reductions in debt burdens. First, restraint was focused on spending cuts, not tax increases. Second, the spending cuts had to pare social welfare programs and the government wage bill, which bulk so large in government finances. Governments that failed to reduce substantively their debt burdens left these politically sensitive expenses virtually untouched.

Expenditure reduction offers the best hope for reducing Ontario's debt burden. However, it will be much tougher to achieve the government's fiscal targets in the current slow-growth environment. An underperforming Ontario economy will likely put upward pressure on program expenditures. At the same time, provincial revenues may be softer than expected because of weaker trends in personal incomes, retail sales and corporate profits. These three tax sources account for over 80% of provincial revenues.

It is critically important for the government to maintain its focus on deficit reduction. With provincial debt closing in on \$100 billion, Ontario has been caught in the debt trap that snagged Ottawa earlier on. The province will pay almost \$9 billion in debt-servicing costs this year, essentially the same amount as the budget shortfall. The rising tab is already taking one quarter of provincial tax revenue.

Countries making significant fiscal progress typically emerge with stronger economies and lower unemployment, according to the aforementioned study. The risk premia on interest rates shrink, providing a boost to

activity, if governments stay the course. Ontarians are already experiencing part of the payoff from the retrenchment in the public sector. Interest rates are trending lower, though yields are still very high relative to the underlying improvement in inflation. Canadian short-term rates are now around 5%, about four and a half percentage points lower than their average of the past 20 years. A government of Canada long-term bond is yielding just above 7.5%, close to three percentage points under its historical average.

However, the transition to a stronger fiscal position is often arduous, particularly if the adjustment occurs during a period of slow growth. This is Ontario's conundrum. Accordingly, the government should take precautionary steps to ensure that it remains on its stated deficit reduction path. Like their federal counterparts, Ontario policymakers should factor in a contingency fund which would deal with any slippage stemming from adverse economic or financial developments.

There is a possibility that the economic and revenue gains stemming from the government's proposed personal tax cut may not be as great or as immediate as expected. Even deeper spending cuts may be needed to ensure that the government's deficit targets can still be achieved.

I am now more than prepared to take your questions.

Ms Isabel Bassett (St Andrew-St Patrick): Thanks, Mr Gampel, for your presentation. It's certainly informative. You mentioned that ways that Ontario should deal with its fiscal problems should include maintaining a competitive tax regime. You say that's essential. Could you just elaborate a little bit on that vis-à-vis attracting business?

Mr Gampel: I think most studies would indicate that the tremendous rise in taxation rates, whether it's on corporate or household taxes, in recent years has been a factor which probably dissuades businesses from investing in Ontario. It doesn't stop it totally, because there are other factors that have to be taken into account.

But certainly I think moving towards a tax regime which is much more in line with our major trading partners, whether within Canada or south of the border, is essential towards attracting new investment and attracting new jobs, obviously, to this province. We have a long way to go in reaching that stated objective.

I know on my radio this morning I was pleasantly surprised to hear that Metro is planning to boost property taxes to help pay for the Sheppard subway line. I can tell you just from my own experience in travelling through Ontario and talking to businesses, giving presentations to customers and potential customers of Scotiabank, that the mood of the public is not for tax increases. They feel that they are overtaxed—I think the data confirm that—and that in order to give a little bit more punch to the economy obviously some rollback is warranted.

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Mr Joseph Spina (Brampton North): Thank you, sir, for the presentation. Each of these is a little bit more enlightening. I always wonder if the phrase "conventional wisdom" that's used by economists is an oxymoron.

You indicated that the province should stay the course with respect to its deficit reduction targets and that deeper cuts may be needed in order to accommodate the pro-

posed tax reduction. You also indicated that the tax reduction may not result in a short-term benefit in terms of stimulation. On a longer-term basis, however, do you feel that a tax reduction would contribute to the recovery of the province and that the additional deficits would be just as important to accommodate that tax reduction?

Mr Gampel: There are no easy answers to this type of question, and I appreciate the difficulty that you have in planning and I think you can appreciate the difficulty that we have in speculating on this type of future activity.

I would say that given the tremendous amount of uncertainty in the economic environment right now, there is absolutely no guarantee that a \$100 tax break to individuals would translate into \$100 of spending into the economy. Therefore, in my opinion, the impact may be more muted because of other factors that are going on that are affecting Ontario at this moment that are much more international in scope.

As I indicate, and that's why I wanted to read the statement in so I wouldn't miss some of these points, most of our major trading partners are undergoing similar type of problems. They're all in a slow-growth mode. There is a tremendous amount of downsizing coming through, through industrial restructuring and government retrenchment around the world. There is no guarantee that the uncertainty that is pervasive right now would quickly turn around with the advent of a new round of taxes.

I think that Ontarians would probably look to see what their total tax bill will be once they get hit by user fees and the like and property tax hikes that are likely to come through, so the net effect may not be as great in terms of what the spending power would be. I think, in short, a tax cut would probably stimulate some spending. How much I am not sure at this particular point. I can remember many years ago in this province taking advantage, and I thought it was very good at that particular time, of a program of tax relief that was geared to a particular sector. That was the home sector. Obviously, you can then quantify with a little bit more precision the net impact.

But what we're talking about right now I think are much more nebulous concepts. Right now there is so much pervasive uncertainty about the job outlook that there probably would be a decision made to save more, spend less, and pay down existing liabilities in order to protect themselves.

Mr Spina: Just on that point of the international market impacting on us, interest rates obviously are a key factor. Could those interest rates be, shall we say, worse if we don't get our fiscal house in order now? Could that impact us adversely down the road?

Mr Gampel: I think it could. I think there is a new sense of optimism in financial markets about Canada. I think that we are seeing it now being tested in the marketplace where we are beginning to see some sense of coming to a much more normal spread between Canadian and US rates, which is the benchmark for Canadian rates. The Bank of Canada is doing its damndest to deliver lower interest rates. The currency has managed to stabilize around its two-year average, just under 73 cents.

I think there is some optimism that governments in this country, whether federal or provincial, are now seriously

redressing this situation, and I think we are slowly but surely seeing the impact in terms of the downward trend in interest rates and the narrowing in differentials, especially at the short end of the yield curve.

As we move out longer-term where governments have tended to do more financing, there's still some scepticism, and rightfully so, because we know that the debt-to-GDP ratios continue to rise into the future no matter what is being done today. So I think there has to be a hard-won degree of confidence before investors both here and abroad fully give us the low interest rates that we probably deserve and need at this particular time.

But saying that, rates are down. They're likely to stay down unless there are some unforeseen shocks to the system. Last year we were essentially blindsided by a few of them in terms of the Mexican peso crisis, which is not anywhere close to our borders but swamped us immediately. The Quebec situation is a wild card in the outlook, and your guess is as good as mine as to what the implication will be.

But all these factors suggest that interest rates are just not in our control. What is in our control is taking the corrective steps and maintaining I think decided progress in getting deficits down. Again, I don't think we're debating the fact that we are moving towards lower deficit. I think it's the speed of the adjustment which is probably critical at this time.

Mr Spina: So it's important to move.

Mr Kwinter: Thank you, Mr Gampel, for your presentation. It's always useful to have people like you come in and give us their perspective so that we get an overview of what the different perceptions are.

One of the things I'd like to talk about is, there seems to be a conflicting message coming out of the government. When the minister and his deputies and staff appeared before us, they spent some time in telling us the importance of Ontario's credit rating and the fact that it wasn't just the interest rate that was impacted, but that once you get to a certain level, certain bond buyers are precluded from buying your bonds because they have to achieve a minimum investment level quality. Today, the Minister of Finance is quoted as saying he doesn't really care about the bond rating services' rating, he is going ahead with his tax cut regardless of what they are saying.

Would you have any comments on that and what the impact would be?

Mr Gampel: I guess how I would comment on it is that the sort of recommendation, the last paragraph which we put in, was that maybe it would be a pragmatic approach in order to ensure that the fiscal targets are met and which have, to a great extent, been accepted by the rating agencies at this particular time. Maybe the government should ensure that the deficit targets would be reached by cutting spending even greater if they wished to put that tax cut through, the magnitude of which again I think will probably change by the time we get to the next budget round.

I think credit ratings are important. I think anybody who holds an Ontario bond would feel the same way. Therefore, I think it's incumbent upon the government to continue to act in a prudent manner in terms of its fiscal objectives, and I would expect that the government would

follow through on their commitment to bring the deficit down. How they get there is obviously important. If they continue to push for their tax cut, and I have no reason to believe that they won't, then maybe one way to ensure that the targets and the credit rating can be maintained is to cut spending that much deeper at that particular time. That's one way of ensuring that we can basically maintain the province's credit rating as it currently stands.

Mr Kwinter: Could we pursue that a little bit? There's no question in the minds of most economists that whenever you start cutting expenditures it does provide some sort of a drag on the economy, and we have the double whammy of Ontario being the major recipient of whatever drag the federal government's actions take plus what the province is contemplating. What I'd really like to find out from you, as an economist, is what is the—not the rationale in deciding it, but what is the ratio between your suggestion that, well, if you're really committed to the tax cut then go ahead, but that means you're going to have to cut further into your expenditures; and what is the net result of that, given the fact that you've already said there's no way of knowing what the net increase of economic activity is going to be because of a tax cut, but I'm sure you can probably come up with a model that would show you what the drag is going to be by cutting further into expenditures.

Mr Gampel: Again, we make the assumption that further cutbacks will have a more negative impact on the economy. It may, it may not. It all depends upon how economic activity in the economy and our trading partners is doing at that particular time. For example, if the taxes phased in were—let's say the biggest tax cuts come two years down the line as opposed to next year, we may be in a different economic environment, a stronger economic environment where the Ontario economy is doing much better so that we could probably tolerate the extra expenditure cuts without seriously damaging the economy, or let's say forcing a further contraction in jobs or the like.

Again, it's very difficult to say that this is going to permanently impair the ability of the economy to grow. I don't think that's the case. I think we are, unfortunately, caught up in an international environment right now which is stuck in a low gear, and because Ontario's economy has now dynamically changed more towards an exporting platform, we have to hope that our trading partners, in the United States in particular, start to show better growth, and we think they will.

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I think that as we move out through 1996 and into 1997 and probably 1998 as well, the macroeconomic conditions that Ontario will be involved in will be doing much better. That's a very important benefit to the province to continue to cut spending during that period of time. If the economy is stuck permanently in a low gear, then obviously there will be much more negative impacts on employment and overall output. But a lot depends upon how the economy is doing two years down the line, for example, when the full implementation of these tax cuts comes through.

The one thing I've tried to impress upon you today is that—and I think it is very, very important; and you have

so many people advising you—the best way maybe is to take a consensus of the forecast and knock it down by a half percentage point and do your forecasting on a very, very conservative basis over the next year or so, because the economy is weak and there doesn't seem to be a lot of stimulus coming from it. But events can change. Lower interest rates in the United States should be, I think, a very favourable development to getting that economy back on its feet. Once Americans start going to the malls and start buying cars again, then we're going to see a little bit different performance in Ontario. That will probably have a big impact on how Ontario fares.

I think the domestic side is going to be weak, it's going to be hard to get new jobs coming back at the pace that would fully offset the retrenchment in the public sector, so that we are going to be running a slower pace of job creation for the foreseeable future. That doesn't necessarily mean that the Ontario economy is going to do poorly during that period, it could actually start to revive, again piggybacking on improving fortunes in the United States and around the world. I think a lot depends upon—you know, we're asking questions, but what is the immediate impact? I think we have to only take one year, at most, two years, out. Looking beyond that is just too difficult to predict at this particular time.

Mr Tony Martin (Sault Ste Marie): Thank you very much. Certainly your being here today has been helpful and informative. I just had a question around the issue of decisions made by government, where we're going and the premise upon which some of those decisions are being made and the question of consumer confidence and stability. Certainly out there today, as I walk around my community and talk with people who are working, or not working, involved in various organizations and functions re economic development etc etc, there is quite a high degree of anxiousness, a sort of lowering of the level of confidence that their own economy will be healthy moving into the next year as they look at what's been done and what they're anticipating will be done by this government by way of both the speed and the depth of the cuts that are being made and the tax break that is being promised.

I wanted, in my own mind, to get some help from you so that I could perhaps share that with the folks back home. How do you reconcile the statement that the economy is soft with the fact that so many major corporations at the end of the year 1995 are declaring historically record profits? In the province of Ontario, we had in fact historically record investment in 1994. Ontario is by all measurements very, very competitive with the rest of the world. I don't think I'm saying anything that can't be quantified or proven there—with the fact that the government is saying we have a soft economy and we have to be doing some things to reflect that. And you're saying today, in coming before us, that we have a soft economy. Yet what I'm seeing by way of the reports that are coming out is in fact somewhat different. Can you reconcile that?

Mr Gampel: I don't think that the connection between corporate profitability and what happens today in the economy is as direct as you'd like to probably make it. Overall corporate profits are slowing down at the moment

because the economy has slipped into a lower gear. But businesses have done a lot in this province and in this country to improve their ability to generate bigger earnings and I think we're starting to see that reflected in the stock market. The markets are essentially giving a vote of confidence in many firms in this province and in this country and their ability to generate income and activity and contribute to the province's longer-term output.

I don't know if there is that much of a connection. As we've seen before, it's a highly cyclical economy, it's a highly cyclical profit picture. The profit numbers are probably going to look a lot different over the next six to 12 months, as slower growth and slower momentum in both domestic and foreign markets take a toll.

Right now what we're talking about is the economy still at a very high level of activity, but in terms of the net addition to growth, it has certainly slowed down. It's not producing the addition at the margin that we would like to see. The markets right now are suggesting that companies are able, even in a slow-growth environment, to generate higher rates of earning than they may have done in previous cycles, and that probably is good news for maintaining employment levels and output.

Mr Martin: I just want you to know that I'm not just pulling figures out of the air. I'm reading the reports that are coming out and we have many, many companies that are known by all of us in this province that have declared historically record profits in 1995—and by way of, at least, the activity in the stock market. Again, I don't pretend to be that familiar with all this because it's not my area of expertise but certainly I can read, I can understand and I can relate sometimes these factors.

The companies are declaring record profits. We have investment in the province that's very healthy, and we have the stock market doing quite well—actually, if I might use the word “bullish”—because what they see ahead of them is a set of extremely promising conditions, at the same time as we're being told by the government that we have to batten the hatches, cut programs and cut expenditure at a speed and to a depth that I think is going to have major repercussions in every way including economic.

Mr Gampel: You have to remember, too, if I could add just add one comment, that in the early 1980s there was a very tough recession and many resource companies in this country, in this province, went through a major transition phase in order to streamline, to get out from high levels of debt and to modernize. Now we're at the forefront in terms of profitability and their ability to generate income and output in this province, in this country.

The tough recession at the beginning of this decade basically has forced a rationalization in manufacturing and we're now starting to see it in terms of many companies able to generate better earnings performance and maintain high levels of output. A lot depends obviously on the markets that they are addressing but, essentially, the economy has faced the challenges of being in an open market economy, of recessions and downturns, and basically forcing this rationalization. Various sectors have done it. The service industry is going through it right

now. We're seeing a rationalization in many areas of that large industry.

It's just that now the time has caught up for governments to basically rationalize their operations.

Mr Martin: I don't think anybody is arguing with you that that shouldn't happen and I think we were doing it as a government when we had control of the handles, and this government should too. I guess what we're questioning is the timing, the depth, the tax break, all of those factors that are new to the equation.

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I just want one other question, if I have time. It's the follow-up on a question by Ms Bassett on the competitiveness of Ontario. Indeed, I would disagree somewhat in the view of Ontario as being competitive. I believe Ontario is very competitive and all of the indicators are saying that we are. I believe we're competitive because our workforce is very well educated; we have a healthy populace because of the health care system that we have in place; we have a Workers' Compensation Board that works very effectively to protect companies as well as protect workers and get them back to work again. I think we're very competitive in terms of our hydro rates and the fact that we look after people and we don't let them fall through the cracks. When we compare ourselves with countries, particularly in the eastern part of the globe, we have to understand that the reasons they're competitive are factors like the use of child labour and the very low regulation that's there re health and safety and the wages that they pay people.

What I'd like to know from you, because it's obvious the government hasn't done it, is, what studies have you done re the human factor and some of the conclusions that you've come to? Have you factored in the cost of not providing good health care, the cost of not providing good educational opportunities for people, and do you know at what point a major cutback to those very valuable programs becomes counterproductive re continued economic growth and continued economic health for this province?

Mr Gampel: Obviously, those factors are included in the type of analysis that most economists would do, because we obviously include it in the type of productivity numbers that we would build into our forecast and base it on. But we also pay a price for that, because we have this dead-weight drag of carrying \$100 billion of debt in the province, which is really the cost of these services that we have built in over the years. So I think it is not easy just to break it out and to say that these factors alone are boosting our competitiveness. They all help; there's no question about it. I am not going to say that having a healthy or well-educated labour force is not a prime decision for businesses locating in this province.

I'll tell you one factor that you didn't mention which is of course not in our control directly but indirectly—the currency. We'd have a much weaker economic performance in this province and this country if the Canadian dollar was back at 90 cents, where it was at the beginning of the decade. The dollar itself has been a factor which has helped us regain some lost competitiveness and given us time to restructure.

There are a lot of factors—ones that you've mentioned, other ones that have to be built into any forecast. It's hard to isolate any one as being the most critical. In many areas, we probably are very competitive because of the requirements of an industry, whether it's labour force and the like, which makes investing in Ontario that much greater. But overall, if we're looking specifically on the tax side, then I think the evidence suggests that Ontario still has some ways to go.

The one other question my colleague who's very good with numbers has just indicated: On the profit side, if we look at pre-tax profits—and I would assume that is nationally—for Ontario in 1995 pre-tax corporate profit as a percentage of GDP was 8.5%; in 1990, it was 8.6%. So it all depends upon how you want to measure profitability as to how well we've done. Obviously, if we're looking at it as a measure of the ability of the expansion of the economy since that period, we really haven't done as well as some of the headlines would indicate.

The Chair: Thank you very much, Mr Gampel. We thank the Bank of Nova Scotia for appearing today.

Mr Gampel: Thank you for allowing us to talk.

CANADIAN BANKERS ASSOCIATION

The Chair: Our next presenter—this could be known as the morning of the banks—is the Canadian Bankers Association. Welcome. Please identify yourselves for Hansard at your first opportunity. We have 30 minutes to spend together, to make a presentation and perhaps leave some time for questioning at the end.

Mr Michael Gree: Good morning, Mr Chairman, ladies and gentlemen. I'm Michael Gree and I'm the Ontario director for the Canadian Bankers Association. I'd like to introduce the members of our banking group here today: Mr Andy Kenyon, who is a senior vice-president with the CIBC, the vice-chairman of our committee; Mr Michael Lowe, senior vice-president, Bank of Montreal; Mr Steven McNair, senior vice-president, CIBC, and chairman of the Ontario committee; and Ms Barbara Amsden, who is the director of financial affairs of the CBA. So that's our team.

Mr Andrew Kenyon: I'm going to be leading off the comments this morning. By way of further background, my background is in taxation, and the gentlemen to my right are "real" bankers. I will just go quickly through my comments; they should take about 10 minutes.

Getting control of the provincial debt and deficits is the single most important political challenge we face in the 1990s. Our total debt and substantial deficits have pushed us to the edge of an economic abyss. If we do not get the debt and deficits under control, we will be unable to remain economically competitive, our ability to deliver social programs will be further eroded and we will pass on a truly dismal economic inheritance to succeeding generations. None of these are outcomes of which we should feel proud, but they can be avoided provided you as legislators take the lead, with support from business and the public.

The government of Ontario has begun the process and it must stay with it until we are living within our means once again. Difficult decisions have been made in

initiating this process, and more difficult decisions have yet to be made.

We support the government in its actions and strongly encourage it not to waver in either intent or execution. In our recent submission to the Treasurer, we offered the following six-step approach to continuing his campaign against debt and deficits.

First, take action now in order to avoid taking more drastic action later. Ontario's net public debt is expected to climb to \$97.2 billion in 1996. That works out to about \$8,750 per capita. At this level, Ontario's debt and deficit burden is unsustainable. By making the necessary spending cuts now, opportunities for sustainable economic growth will be improved.

Second, set realistic but ambitious deficit-reduction targets. The immediate goals for the Ontario government are clear: Meet, and ideally improve on, the deficit targets for each of the next five years until the budget is balanced, by no later than the year 2001. Once deficits are eliminated, the government can focus on maintaining the total debt of the province at a level that can be afforded in good times and bad. Carefully done, this should lead to economic growth. Job creation will follow and will be sustainable once the province is no longer hostage to unaffordably high interest payments.

Third, educate Canadians about the importance of the debt and deficit reduction. It is important that Ontarians generally understand the link of deficit reduction and debt control to creating and sustaining jobs. Without this understanding, Ontarians will not accept the logic of reducing government expenditures. It is equally important that they understand that raising taxes on business is not a solution at all and will lead only to a false sense of security and a worsening of the current situation.

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Fourth, expenditure controls, not tax increases. We believe the government should continue its commitment to deficit elimination and debt reduction through expenditure controls rather than tax increases. Experience has shown us that our existing expense structure is unaffordable and inefficient. We must eliminate unnecessary programs and improve the efficiency of the remaining programs. In achieving the efficiencies of the remaining programs, the government should have a blueprint in mind as to what the revised programs should accomplish at the end of the expenditure reduction. Cutting expenditures should be accomplished within a logical framework, not indiscriminately.

Experience has also shown us that raising taxes to cover the cost of ineffective and inefficient programs is at best a short-term palliative. In Ontario and federally, we have gone as far as we can with tax increases. As matters now stand, Canadian tax rates are uncompetitive with tax rates in bordering states. Within Canada, Ontario has the second-highest marginal personal income tax rate. Since Ontario lags most of the other provinces in deficit management it is likely that the other provinces will be in a position sooner to begin reducing personal and corporate tax rates and thereby make them more competitive jurisdictions.

A range of undesirable consequences arises from high and uncompetitive tax rates. The higher the marginal tax

rate becomes, you actually give rise to diminished tax collections per percentage point of increase, as more of the economy is driven underground and business and individuals migrate to more hospitable tax climates. Reduced returns on investments lead to reduced investment in the province, with consequent impact on jobs. Higher taxes give rise to uncompetitive pricing as Ontario products and services bear a higher tax cost component than goods and services produced elsewhere. Finally, higher taxes result in reduced savings, which leads to more borrowing from non-residents to finance expansion in Ontario. That too puts us in a spiral with respect to managing the deficit. Together, those undesirable consequences are a potent brew.

Our view is therefore that a stable, low-tax environment is important to attracting and maintaining investment and encouraging private sector job creation.

Fifth, address the real roots of the deficit problem: government spending and unnecessary regulation. Canada's deficit and debt situation is forcing federal and provincial governments to rethink their roles and how they operate so that they focus only on those things that governments are in the best position to do and to do well. The banks recognize the difficult choices facing governments and the problem of allocating spending cuts among departments and agencies, but government must find ways to efficiently deliver those services which are truly needed.

The banks strongly support the government's initiative to reduce or eliminate unnecessary legislation and regulation. This will reduce the out-of-pocket costs of government and will free up resources to be employed in a freer and more competitive private sector. In particular, one opportunity that Ontario could look at is to eliminate duplication in financial institution regulation. Federal financial institutions are already subject to comprehensive federal regulation, oversight, inspection and audits by the office of the superintendent of financial institutions, the Canada Deposit Insurance Corp, Revenue Canada and to other federally mandated audit control systems such as those of external audits and internal inspection and compliance. For this reason, regulation by a provincial body on top of the already existing federal regulation provides little greater protection to depositors, and yet the costs of another layer of regulation, which are borne by Ontario taxpayers, would not seem to be justifiable.

We also support the establishment of a national securities regulator with a mandate to protect investors wherever they reside in Canada, reduce unnecessary duplication and multiplicity of requirements between provinces, and reduce costs and enhance operational efficiencies for the securities industry.

Finally, we believe that integration of the federal and provincial sales taxes, rather than their harmonization or any significant full-scale change, could significantly reduce costs for most businesses, particularly small businesses, and there would also be some small cost-benefits to the government in terms of reduced overhead.

Sixth, apply taxes fairly. We believe that all Canadian taxpayers, both individuals and businesses, should pay their fair share. Many Canadian wrongly believe that the burden on businesses has diminished. In fact, average tax

rates as a percentage of revenue have been significantly higher for corporations than for individuals over the past 30 years. While corporations now may be contributing proportionately less to total taxes collected than in earlier years, this is because their share of national income has declined.

No industry should be singled out to pay more taxes than others. To the extent that government resorts to tax increases, they must be minimal and significantly less than the expenditure cuts. They must be temporary and applied equally across as broad a base as possible, or at least on all businesses in all industries.

We're bankers, so I guess I have to make a comment about the position of the banks on taxation. Banks are subject to higher taxes than most other businesses. We pay proportionately more due to our labour- and capital-intensive nature. Based on 1994 data, banks had nowhere near the top return on equity of the top 1,000 public companies. The best bank stood somewhere around 174th, and not a single bank was in the top 75 of these companies in terms of an average rate of return over the past five years.

Two final facts with respect to our tax position: In 1995 the banks paid over \$880 million in taxes to the province of Ontario and its municipalities. In 1995 the six largest banks paid \$3.7 billion in taxes in Canada in total.

In summary, we urge the Ontario government to continue its commitment to deficit reduction through expenditure cuts, including business subsidies, rather than resorting to tax increases. Tax increases will not solve, nor do they address, the real structural problem caused by overspending on obsolete, ineffective and inefficient programs. Tax increases will discourage private enterprise and impede job creation. This will lead to less government revenue rather than more over the long term. In particular, we urge you to recommend against broadening the base or increasing the rate of any fixed type of tax.

Although federal and provincial governments must take the lead role in restoring our country's fiscal health and fostering a favourable business environment that encourages investment, the private sector also has a real interest and an essential role in this struggle against debt and deficit. Businesses in Canada must be encouraged to generate economic growth, create jobs and compete domestically and internationally so they can contribute to government revenues that pay for our public sector services and programs.

We believe that your committee understands this fundamental approach to sustainable economic growth and prosperity and we hope that after Mr McNair's words you will come to recognize and accept the significant contribution we are making to the economic development of Ontario.

The Chair: Thank you very much. We appreciate your presentation. Could we start a six-minute round of questions with the opposition.

Mr Gree: Mr Chairman, I wonder if perhaps Mr McNair could just say a few words on economic development, which would help to stimulate the flow.

The Chair: My apologies. Certainly, sir.

Mr Steve McNair: My name is Steve McNair, a "real" banker. I don't know what that means, but anyway, I just

want to say a few things about the banking industry, some of the support for economic development in Ontario and some of the conversations I've had over the last couple of years as a chair of the Ontario committee for the CBA. One of the messages we're trying to communicate within the province of Ontario is that the banking industry is a core business in the province of Ontario. It's a very important strategic industry for this province.

We employ 85,000 people in the banking industry, of which 54,500 are in the GTA alone—that's in Ontario, in the GTA, a very large workforce.

We are committed to supporting all sectors of the Canadian economy, and in particular small and medium-sized businesses, which are going to be continuing to drive the economic renewal in the province of Ontario.

We support 73,000 businesses in Ontario with over \$5.2 billion of authorized credits in amounts under \$500,000. We've had a lot of feedback and messages over the years in terms of what our role should be to try and support economic development, and through that process we've been told clearly and frequently that the role of education and information supporting business development and business plan development is the key role we should play. Through the years, and specifically over the last three to four years, we've become actively involved in a number of activities in partnership with the private sector; as well, obviously with both the federal and provincial jurisdictions.

A couple of quick examples would be, we do provide financial support and active participation by CBA staff in delivering what we call the Running Start program. This is a program that's to help people who would like to start small businesses and understand what that would mean, to develop a business plan, and the good news is that 50% went on to try and start a business plan or start a small business; the other good news is that the other 50% decided they weren't ready to do that and, rather than run the risk and perhaps have a business failure, they decided they weren't quite ready to go forward and went back and perhaps repositioned themselves to come back at a later date. So the result is lower loan losses for things like new ventures, and people who, frankly, would find themselves in a position to have success because they now know that a small business either is or is not what they want to pursue in terms of their future.

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We have participated in many seminars, in partnership again with the province. We have had people from the industry participate in 1,800 seminars over the last seven or eight years to support small business.

We have created a series of small business seminars called Partners in Your Success, which has been delivered across the province. In 1995 we had seminars in Woodstock, the region of Durham, the city of Mississauga, Huntsville, Orillia, North Bay and of course across the greater Toronto area.

We've also delivered a seminar or have modified a seminar, called Financing Your Success, to educate and support our aboriginal entrepreneurs on reserves to improve their financial planning skills as well. Three of these seminars were delivered in 1995. Also, the Ontario committee has brought on staff an individual full-time to

support how we can better position the industry to support aboriginal banking opportunities across the industry.

Between 1994 and 1995, in partnership with the federal Department of Foreign Affairs and International Trade, the Export Development Corp, the Canadian Commercial Corp, the Canadian Manufacturers' Association—if I leave one out I'm in trouble—the Canadian Chamber of Commerce, MEDTT and the Canadian Exporters' Association, we delivered *The World is Our Market*, which is a trade finance seminar educating approximately 300 Ontario SME exporters on trade financing and export marketing assistance programs.

In 1995 our committee, the Ontario committee of the CBA, sponsored *Innovation '95—Creating Wealth from Innovation*, a one-day conference hosted by the Association of Professional Engineers of Ontario on behalf of their Ontario centres of excellence.

We also see a role for making sure that our employees within the industry are also well-positioned to support the emerging needs of our customers. In 1995, the Institute of Canadian Bankers and the CBA launched *The X Factor: Increasing Our Export Potential* seminar series. It's designed to educate our commercial account managers and business branch managers on various aspects of trade finance.

Seminars were hosted by our committee in 17 communities in Ontario, educating approximately 2,000 bankers to better position themselves to meet customers' needs.

We play a very active role within our industry, and certainly within the province of Ontario, in terms of meeting the employment equity responsibilities we have. In 1995, in partnership with the Canadian Council for Rehabilitation and Work and Humber College, we delivered a 24-week skills training program in partnership with those groups for 20 people with disabilities, all of whom were offered and received jobs within the industry.

We've also just recently agreed to partner with the Toronto YMCA for a federally funded Young Women's Entrepreneurs Program for 25 young entrepreneurs who will undergo a 10-month training program on business management and financial planning. The industry, through the Canadian Bankers Association, will undertake a six-month mentorship program for the 25 course participants. Industry women account managers-branch managers will undertake the mentorship roles. We've also provided financial support towards a retail learning initiative in partnership with Ryerson college.

In summary, a lot is happening, and our challenge as an industry is to share what is happening. What I've described today are things that are industry-led initiatives, not things that, by the way, are unique to each one of the financial services that we represent here today. Each one of the individual banks has also announced or actively participated in major programs to try and find ways to meet the differing needs of our customers.

Frankly, some of those programs we won't describe today because they're seen as an opportunity to get a competitive advantage over each other. While some people may think that the banking industry is not competitive, I can assure you that the kinds of programs that each one of our major banks is pursuing in Canada would challenge that point of view.

One example we have today—we are updating this information as well—is just one example of how the various banks, the Big Six banks in Canada, are in fact pursuing opportunities to serve the needs of small business. This book is basically full of all the individual bank-initiated programs, whether it's charity, education, seminars, publications, new service packages, government partnership programs, knowledge-based industries and so on. This is just one sector of the opportunity in terms of how the banking industry is trying to do an increasingly better job of meeting the needs of Ontarians.

In closing, what I do want to reinforce again—I will keep on saying this because as a "real banker" in the province of Ontario I want to see my business succeed and I also want to see the industry succeed within the province of Ontario—if somehow we can get an understanding of the importance of this industry to this province, never mind to the country—it's very important to the country as well, believe me—and the unique positioning of this industry that's in the province, then we're making great progress towards the future. Thank you.

Mr Kwinter: I'm delighted to have a panel of "real" bankers in front of me because I'd like to put you in a position: If you were sitting on a loan committee of your respective banks and a commercial borrower came in with a business plan that stated they were going to be running a deficit of about \$10 billion over this year, maybe \$8 billion the next, \$6 billion the year after that, and suggested that they wanted to declare a dividend and wanted you to lend them the money to do it, what would your reaction be?

Ms Lankin: This is a "real" banker's answer we want.

Mr McNair: I think I'd want to look at all of the elements of the business plan before I decided on that particular aspect of the proposal they were suggesting.

Ms Lankin: That's a politician's answer.

Mr McNair: I understand the basis of your question. In all seriousness, when you look at businesses that are undergoing difficulty, and certainly in our business we face that reality every day, whether you're in the good part or the more challenging part of the business cycle, you really have to look at what are the overall implications of what that business plan is going to be and what would be the impact of investing in a business, if you want to suggest that, or advertising or doing whatever you might want to do, that might generate some economic activity and will in fact generate the economic activity that will over time create the right kind of sustainability of the business. I think that's how I would view someone who wanted to invest and spend, or give up revenue perhaps to invest and potentially receiving more revenue over a longer period of time. That's really the best answer I can give you.

Mr Kwinter: Any other comments?

Mr McNair: I doubt it.

Mr Kwinter: I just want to tell you that I commend you for bringing to the attention of this committee, and hopefully to the citizens of Ontario, that there is really a false impression when you see profits. Profits aren't there in isolation; profits are there on a return on investment.

Someone may make \$100 million in profit and we say "Wow," but they've invested \$6 billion to get it and

they're in terrible shape. Most people don't understand that. I want to thank you for bringing that to the attention certainly of the committee and to people who may be watching these hearings. Notwithstanding that, it does seem perverse, almost, that the banks are doing so well and the economy is doing so lousy. I wonder if you have a reaction to that.

Mr Kenyon: My observation on that would be that we're a little countercyclical. We make loans in the good times and they continue to perform through the earlier part of the downturn in the business cycle, then our bad loans start to come into play later on, usually when the businesses have gone through their down cycle and they're on the recovery trail. There may be a little bit of a false impression in terms of where we are in relation to the business community itself. We trail their results.

Mr Gree: Maybe I could add something to that too. One of the things the banks have really done right over the last few years is get their loan portfolios in much better order. The quality of the credits has increased, and of course loan loss provisions dropped substantially, so a lot of the profit is because banks are probably getting their businesses right and we're not seeing so much in the way of write-off.

Ms Lankin: I wish I had substantially more time because there are a number of things I would like to pursue with you. Let me first just say that I appreciate the efforts the CBA and the institutions themselves have made over the last few years in addressing the real concerns of small business and in attempting to reach out. We've had many of those discussions over the last few years, and I was pleased to work with you on things like Running Start and other programs. I think there's been a good job done in starting to address that.

I was interested in your last comment, Michael, in terms of banks getting their loan portfolios in order. I think it is in a sense an admission of some of the problems that the institutions had themselves over the period of the 1980s. At the same time governments were doing some things pretty wrong, so in fact were the banks. I think of the ease with which loans were written to the Campeaus, the Reichmanns and others, and international investments and the cost of that, and the cost of that to small business where we pulled back. That also had an effect on the economy, as did government spending and government debts and deficits.

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I'm just pointing out that sometimes it's quite easy to point the finger at governments only. While I think we all should take responsibility for that, there were other parts of our economy that contributed overall to where we are here now and perhaps a mutual recognition and working it out together and coming out the other end is important as well.

Mr McNair: I'd certainly agree with that comment, the opportunity to work in partnership to create a better tomorrow; I don't disagree with that point at all, and that's the case. But I also would echo that if we look at the improved profitability, much of that has been driven by reduced loan losses over the last couple of years as opposed to just incremental economic activity on behalf of the bank.

Ms Lankin: I understand that. There are a couple of things I want to challenge in your presentation, and I do this because I think it's important that at some point we start to have a common basis about how we promote Ontario and describe Ontario abroad.

While I don't disagree with the thrust of the macro-messages you're delivering to the government, as to the premises on some of them, like the lack of competitiveness in our tax system, I have got pages of stats from the Ministry of Finance, produced under this new government, provided to me as the Finance critic, on tax competitiveness, that roll up payroll taxes, property taxes, corporate income taxes, look at comparisons with G-7 countries, with US trading partners, particularly the Great Lakes states but beyond, and other provinces; it says, in fact, on the corporate side that we are very competitive.

On the personal income tax side, the comment you made in terms of in comparison to other Canadian provinces, in the top marginal rate, you're right, but you fail to mention at the middle level or at the lower-income level where we have lower rates of taxation, so let's get a fair comparison as we talk about it.

The other thing you mention in terms of Ontario lagging in deficit management: Here again let's look at total indebtedness in the public sector. We know that in fact the federal government has passed down some of its debt problem to be managed where it could be better managed through program delivery at the provincial level. Fair enough. We know that through equalization payments that has had an impact on provinces like Ontario and others greater than others.

We also need to look at what's going on at the municipal sector. You may be surprised to know that just again in answer to a question I've put to the Ministry of Finance, they were provided with the documentation that says the total combined per capita indebtedness of populations and provinces in the broader public sector shows Ontario not as the highest, but as the fourth highest, and behind provinces like Quebec, which we know has a big problem, but also behind provinces like Manitoba and Saskatchewan which have presumably dealt with their provincial deficit problems and are dealing with their debt problems. But part of that is because it's been pushed down and we haven't in the past had the same level of indebtedness at the municipal level.

If we're going to say there's only one taxpayer, then let's look at the overall levels of indebtedness and make the comparisons. I still agree with you that they're too high, but we are not uncompetitive in that sense, and it's damned well time we all started working from the same set of figures and promoted Ontario with some positive sense that we are getting our house in order and that there are good things happening and that we're not out of line in terms of other jurisdictional comparisons.

Sorry to take up the time to do that, but I feel it is really important that we not just promote myths and that we actually use real statistics to keep governments accountable but also the business sector accountable in the positions they put forward.

Mr McNair: I think the banking industry would support the view that we need to deal not in myths but

what the realities are in terms of the industry, as well as the opportunities. I'd agree.

Mr Kenyon: I was just going to comment that taxes are one aspect of Ontario's competitiveness, generally speaking. There is a range of business environment issues of which taxes are a component. So when you include taxes in the overall picture, Ontario has problems from a competitiveness perspective. Barbara, do you have some information on that?

Ms Barbara Amsden: Yes. First of all, just in the case of the banking industry, all of the studies I've seen, with one exception, do not look at the financial services industry directly. Most of the studies you'll see, and probably we've seen many of the same ones, will have manufacturing, telecommunications and so on.

Ms Lankin: Primarily, it's true.

Ms Amsden: One of the real areas of concern for the banks is the continual emphasis on capital taxes. Capital taxes are fixed-rate taxes. There's been a double bonus to any province that has them, and all provinces now do as well as the federal government, being that the banks over the past 10 years have been forced to increase the capital they hold. They're going to be forced to increase this even more because banks south of the border, the American banks, have built up capital well in excess of what they're actually required to and for Canadian banks to compete with them, they're going to have to be as well capitalized.

The second issue you raise is a very valid one, which is perception and how do you get out the message in those other industries? I'm sure you've probably at least begun to read the GTA task force report and it goes into a lot of these issues in a great deal of depth. They raise the tax issue and they look at it to some extent on an industry basis for key industries, and they've identified banking as one of those key industries. They've identified that for every \$1 increase in non-tax costs, there is an additional generation of benefit of \$2 within the rest of the economy. By the same token, to the extent that taxes are increased—

Ms Lankin: I realize that, yes.

Ms Amsden: —you could see a negative multiplier effect. That's why there is a real concern about tax increases, even if there is competitiveness with other jurisdictions.

Ms Lankin: Fair enough.

Mr Douglas B. Ford (Etobicoke-Humber): Good morning. I'm going to ask you about the invisible economy. What is your view of the underground economy and how big do you estimate it to be? What effect does this have on the overall economy? If you don't have any opinions on it, that's fine.

Mr McNair: In terms of the scope and size, I wouldn't have.

Mr Kenyon: We have no information on that.

Ms Amsden: I have seen a federal study, and I don't recall the amount on it, but the federal study concluded that the underground economy was considerably less than some other numbers that were being cited.

There are two issues with the underground economy. Some people don't consider it to be as serious as all that because presumably the people in the underground econ-

omy are still spending within Canada. But there have been, I think, more and more seminars on how people can move their money offshore completely legally and so there is probably a lot more going offshore and not being spent in Canada now.

The second point is that with the perception that there is a considerable underground economy, there comes that unwillingness to be fully compliant with the tax laws. There's a credibility issue that if people don't believe the tax system is being enforced, if they don't believe the taxes are fair, you have a breakdown and it can only get worse. That's why I think just as we're restoring credibility to the economy, Ms Lankin had said, we need to restore credibility to the tax system.

Mr Ford: Do you believe this could be an asset or a liability? I'm talking about small business. In other words, they can't get capital so they go into this underground economy and start a business so in that context it could be an asset, getting the economy moving in their sphere.

Ms Amsden: Actually there is a very recent report out of Nova Scotia that does sort of suggest that a blind eye be turned on some of these micro-sized—there's definitely economic activity there and you would hope that ultimately it will come above ground, but there is the question of what message this sends to ordinary salaried taxpayers.

Mr Ford: This is what we're basing it on the tax issue there.

Mr McNair: From a social issue, my feeling is, I think there would be a concern if we're creating a sustainability that that's okay as opposed to creating businesses that can thrive and exist within the structure in which we want to function.

I'll be frank with you. It is a challenge at times with organizations or individuals or entrepreneurs who would like to get small business financing, but perhaps are not prepared to disclose the source of their earnings and obviously as an industry we can't support that. We would obviously expect individuals to declare.

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The Chair: We're running out of time. Mr Hudak, do you have a short question?

Mr Tim Hudak (Niagara South): Yes, I do, a very quick question. I thought it essential to ask some bankers this question. We've seen a competing economic program from the OFL and CUPE, I think, that says we don't need to cut government spending; we just need to permanently lower interest rates, maybe to fix them at a very low level. I don't know if they're trying to do that with the real interest rates or just nominal interest rates.

My economic understanding is that's based on a fallacy, but could you perhaps explain that to us? Is it possible to permanently lower interest rates and peg them? What would the impact be on capital investment and long-term growth? Would we be experiencing then inflation as a result, a return of stagflation? What's the problem with that model?

Mr McNair: I think you heard some excellent presentations—I didn't hear all of them—in terms of some of the banks' economists, in terms of the fact we're not a separate entity. We are part of the world economy and

clearly what happens in Ontario is driven by our competitiveness, but also our position in terms of how we can demonstrate that we have our house in a position in which the international market is prepared to support and invest in Canada, as well as Ontario, as well as the municipality of Toronto for that matter because they raise funds internationally as well.

I think the model saying you can do it in isolation of what's happening in the global scheme of things wouldn't work. I do understand and accept that if loan costs or borrowing costs are lower, the cost of supporting my own home, as well as the government, would be less, but you can't sustain that without the impact on the Canadian dollar, which affects our ability to be internationally competitive and so on. The days of not having ourselves respond to the international community are over.

Mr Michael Lowe: You have to recognize that it puts it in a different framework. It becomes a support program as opposed to a competitive one.

The Chair: I thank the Canadian Bankers Association for joining us and sharing your opinions with us.

CANADA TRUST

The Chair: Our last presenter for the morning is Canada Trust, and I believe our final expert witness. Ms Croft is managing director and chief economist with Canada Trust. We welcome you to the committee. We have 45 minutes. Perhaps you could start with the presentation and then we could finish off with questions.

Ms Patti Croft: Thank you and good morning. I have provided you with a handout. Unfortunately, I don't have written text, but I can provide that afterwards if that's required.

What I would like to do today is to spend some of my allotted time in analysing Ontario's economic and fiscal position as to where we stand today and the outlook, but what I would also like to do is to take a step back or away, if you will, and to share with the committee my global perspective of the province of Ontario.

I've had the pleasure of spending the last 16 years on Bay Street and I've had the opportunity to work very closely with some large holders of Ontario's debt in all corners of the world, everywhere from New York to London to Tokyo. Beyond debating the government's current fiscal plan, what I really hope to do today is to bring to this committee the view of Ontario, not from room 151 in the Legislative Building but indeed from the global marketplace and from those who are actually making the call or the judgement to buy or sell Ontario debt and the factors that are influencing their very critical decision-making process.

First I'd like to deal with Ontario's economic and fiscal position. The facts are very clear. You're all, I'm sure, very familiar with them, but what has happened of course is that cyclical and structural forces have combined to produce what in the market has been viewed as a startling deterioration in Ontario's finances over the past six years. As recently as 1989, the surplus of \$90 million subsequently ballooned to a deficit of over \$12 billion in 1992, and for Ontario the worst recession since the 1930s was unfortunately combined with relatively

strong program spending growth and that proved to be a deadly combination.

Since 1992 deficit reduction has proceeded, but from the market's perspective it's proceeded at a very frustratingly slow pace. The deficit is projected this year at just over \$9 billion, and of course after seven years of running huge budgetary deficits this has caused the debt load in Ontario to skyrocket. It's more than doubled to almost \$100 billion currently.

I would like to point out that again the market's view is that Ontario's performance has been in stark contrast to that of the other provinces, very much out of step. This year alone, seven out of 10 of the other provinces are set to report budgetary surpluses. Indeed, my job of forecasting provincial deficits as an economist has become progressively easier over the last seven years because basically what you do now when you're projecting deficits in Canada is you just take Ontario, add Quebec and the job is essentially done. But there's a lot more work to be done in the two largest provinces, and in my view, Ontario's turn has now come.

I think that the fiscal plan of the current government is absolutely essential to get Ontario's financial house back in order, but I would stress that Ontario has come very late to this deficit reduction game. As a result, I think the pace of deficit-reduction must be front-ended loaded, with the bulk of the deficit cutting accomplished through very deep spending cuts. I think the severity of the deterioration in Ontario's fiscal position fully warrants the very tough fiscal action which has already taken place with more to come. I also would stress that I see the proposed tax cut as being critical in achieving the proposed deficit reduction targets.

Now, some have argued that Ontario should reduce the depth of the spending cuts and forget about the tax cut in order to facilitate this deficit reduction process, but I must say, to me, that's like treating a terminal tumour with a Band-Aid instead of the fact that a scalpel is really required.

I think to reduce this deficit to zero and to place the province of Ontario in a position where it can run sustainable budgetary surpluses quite frankly requires radical surgery. I think spending must be cut deeply and quickly, because if indeed we only reduce it slightly, then I don't think it's going to solve the underlying problem. Rather, what it's going to do is put it off and in the interim we will continue to rack up Ontario's debt and that's going to be a legacy that future generations of taxpayers will continue to have to deal with.

Even though that's the strategy and I'm very much in favour of it, I will point out that there are risks. I think the biggest risk right now to this plan is that Ontario is attempting to downsize government's share of the GDP in the province at a time of relatively weak economic activity. I think that this does run the risk of tipping the province into a period of sustained sluggish growth, and that's why I do believe that the deep spending cuts must be offset or followed up by the tax cuts.

Just to take a step back for a minute away from Ontario and to Canada in general, I often get asked this question: What is wrong with the Canadian economy today? Mortgage rates are at a two-year low, housing

affordability is at its best level in years, the prime lending rate is just 7%, and yet no one is rushing out to buy. You've seen the figures on retail sales, you've seen the figures on car sales; 1995 was the worst year in over 10 years. Why aren't people spending?

I think it comes down to two fundamental reasons: One is job security and one is income growth, because let's face it, to be successful in the 1990s, in both the private sector and the public sector as well, both have found that shedding labour is absolutely critical to cut your costs and improve your productivity and ultimately the bottom line as well.

What that has done for Canada is it has really hamstrung the country and the province of Ontario with an abysmal record of job creation, despite four years of so-called economic recovery.

And those who do have jobs are actually making less now in real terms than they did five years ago. When I make presentations and I talk about we're in the fourth year of economic recovery, no recession in sight, it's a good-news story for Canada, a lot of people come up to me afterwards and say: "Gee, I don't feel all that wealthy, despite the fact that we are now four years into economic recovery. Why is that?" The sad truth is that when you crunch the numbers, people are absolutely right. Real per capita income in Canada is actually \$155 lower today than it was when the recovery began in 1991.

Part of this is because of the sluggishness of job growth, which goes back to the restructuring story in both the private and public sectors, but a large part of it as well is because of higher taxes, and indeed if we do compare Ontario as a tax jurisdiction in terms of North America, it is relatively high.

Looking forward, unfortunately it's hard to be very optimistic about either Ontario's or Canada's job creation prospects, either in 1996 or 1997. I think eventually that successful corporations will require additional labour to meet stronger demand, but that eventuality, as of today, is still quite elusive.

As I see it, the problem from a policy point of view for Canada is, how do you get consumers to spend in a low-interest-rate environment in the absence of strong job growth? Well, I think the way you do that is through lower levels of taxation.

I think governments not only here but everywhere are finally coming to the realization that indeed when you raise taxes, you don't get more revenue. When you have a top personal marginal tax rate of 53%, what ends up happening is you get less revenue as you do drive more of the economy underground.

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So by cutting taxes, I think what would happen is that's going to provide a very powerful offset to the deep spending cuts, and it does have very strong potential spinoff effects, because quite frankly, when consumers buy more, when they have additional disposable income, demand rises, production rises, that creates additional jobs, additional income and spending and so on.

Indeed, as far as I see it, the greater risk for the province of Ontario in trying to achieve these dramatic deficit reduction targets is in the absence of these proposed tax cuts. I think without the tax cuts, the risk is

that the Ontario economy will be even weaker than is currently projected, and I think there could possibly be reduced political support for deficit reduction if the promised tax cuts are not forthcoming.

Some will argue that these tax cuts only benefit the wealthy in the province of Ontario, but the government's own numbers say that a middle-class family of four with an income of \$50,000 will save \$4,000 in taxes over a three-year time frame, and I think that's quite a substantial amount of money.

In addition, this government has proposed to introduce the health care levy. That's a progressive tax that is more weighted towards the wealthy taxpayer, and that only kicks in after you earn \$50,000 in income.

Finally, the revenue from this tax would allow the government to abolish the payroll tax for small businesses. Given that these small businesses are creating an estimated 80% of the new jobs in the province of Ontario, surely removing that payroll tax will only enhance the job-creating potential of the small business sector.

If anything, I must say I would urge the government to introduce the tax cuts sooner rather than later. I know there's a debate going on right now, should it be July 1996, should it be January 1997, should it be as promised or should it be delayed, but I think it should be sooner and it should be as advertised.

The reality is, the spending cuts are already in place, and their impact is already being felt. As we know, the welfare expenditures were cut by 22% in October. And surprise, surprise, if you look at the retail sales data for the province of Ontario, retail sales in that month alone fell by 2.5%, which is a huge decline. That knocked \$165 million off the base of retail sales. The reason why is because people on welfare tend to spend every dollar, so as it was cut by 22%, the impact of that was clearly felt on the side of retail sales.

As of November, which unfortunately are the latest data we have, Ontario's retail sales have declined very sharply. Right now they're about 1.5% below where they were a year ago. And if we turn the clock back, at this same time in November of 1994 they were 9% higher than the level a year earlier. So there's been a dramatic deceleration of growth in Ontario's retail sales, and tax revenue as well. To me, this is a red flag right now which is flashing for the province of Ontario, because 20% of provincial revenues come directly from retail sales taxes.

In addition, we know that retail sales are weak, but the job creation record also has stalled out in the last two months. We saw lots in the newspaper, in the press, about how strong the Canadian job performance was in December and January. The nation as a whole created 93,000 new jobs, but Ontario's employment was only up 9,000 over that same period. So the province of Ontario only accounted for about 10% of that massive job creation, despite the fact that Ontario accounts for 40% of the total share of Canadian employment.

So something's happening right now in Ontario. It is a cautionary flag which has been raised, and I would stress that to me it underscores the reality that the tax cut is required in order to stimulate the Ontario economy.

To understand Ontario's fiscal problem, I think it's very valuable to take a look at the deficit figures in a little bit different way. What I'd like to do is to ask you to turn to chart 1 in the handout that I've provided. In chart 1, what I've done here basically is just plotted Ontario's budget deficit against what I call the primary balance. Quite simply, the primary balance is total revenues minus total spending, excluding debt servicing. So take the total revenues of Ontario, subtract out program expenditures and capital expenditures, forget about debt servicing, and that's what the darker bar on this chart shows.

Now, I think this chart tells a very compelling story, because what it shows is that Ontario ran a primary surplus from 1986 to 1990, but what happened after that is quite frankly the wheels fell off.

But you can see there is a good-news story in here, and I'd like to stress that. The good-news story is that the size of the primary deficit has declined considerably. Back in 1991 it was about \$70 billion, but as of 1995-96, the current fiscal year, it's almost zero.

What this chart tells you is that in the absence of debt servicing spending, Ontario's revenues and expenditures would roughly be in balance during this fiscal year. But I must confess that the operative phrase here is "in the absence of debt servicing." We all know what's happened to Ontario's debt load, and that's shown in chart 2, one which I'm sure I don't have to show you but we'll go through it anyway.

As shown in chart 2, Ontario's debt load has doubled in the past six years, and coinciding with this of course is debt servicing costs have tripled. They've gone from \$3 billion to \$9 billion, and I think we should look at this in a little bit different way, as shown in chart 3.

What I've done here is I've taken the debt servicing costs and then plotted them as a percentage of the total revenue that the province collects. Basically, what this chart tells you is that Ontario used to spend nine cents of every revenue dollar on servicing the debt, but today almost 20 cents of every dollar we take in on revenue goes right back out on interest costs.

What Ontario must do in order to fix this situation is that the province must run increasingly large primary surpluses. The revenue must exceed program and capital expenditures by an increasingly large factor, and that's got to be achieved mainly through lower expenditures. This is absolutely essential for Ontario to reduce the deficit and also to stabilize the critical debt-to-GDP ratio and ultimately reduce it.

In a recent issue of the Economist magazine there was an article about deficit reduction and debt stabilization and it was called, It's Not What You Do, It's How You Do It. In this article, researchers looked at countries around the world that had successfully cut their debt-to-GDP ratios: How did they do it?

What they found was that the fiscal policies that worked were those that cut spending, not those that raised taxes. I think that message is loud and clear in North America; we don't have to enforce that. But what I found interesting as well was that the countries that were successful, what they cut were welfare payments and government wages. In other words, the politically difficult

choices in terms of spending cuts were really the ones that produced the most definitive results in terms of deficit reduction and a stabilization in the debt-to-GDP ratios.

Clearly, those are very difficult choices for the province, and I'm also asked very frequently by people: "Okay, we're going through a lot of pain here. Where's the gain? Where are the benefits from all this?"

Well, the benefits I think are becoming tangible for Ontario, and that is, if financial markets believe that a government is serious about cutting its debt, then the risk premium on its debt will fall. In other words, part of the interest rate structure for Ontario is a risk premium, on the fiscal side, and that will be reduced if financial markets have confidence that the province is on the right road to reducing the deficit.

That leads me to the second point which I'd like to cover, which is my global view of the province of Ontario. I'd like to turn away, if I can, from Queen's Park and just take a look at the world of global financial markets.

Ontario is one of the world's largest non-sovereign borrowers, and like it or not, how the world views Ontario I think is a critical factor in either the success or failure of any government's fiscal plan.

This year alone, in fiscal 1995-96, Ontario will tap the capital markets for about \$14.5 billion. That's over \$1 billion per month.

And foreign investors have become increasingly significant stakeholders in Ontario's debt. Today Ontario has about \$100 billion in outstanding debt. Of that, about \$40 billion is non-marketable. It's not out there trading in the hands of investors; it's held by pensions and so on. But of the remaining roughly \$60 billion of marketable debt, about 40% to 45% of that is foreign-held. That amounts to between \$24 and \$30 billion, and this is why I'd like to stress today the global view of the province of Ontario.

In terms of the trend, it's been dramatic. Five years ago, the marketable debt of the province of Ontario was close to zero. So foreign ownership has gone from almost zero to 40% in five years, and that is simply the reality of trying to finance over \$1 billion per month in global capital markets.

If we take a look at who owns the debt of the province of Ontario, the majority of it, over 50%, is held by US investors. I recently spoke to my contacts in New York to try and gauge right now how US investors are viewing the province of Ontario and the outlook for the credit. Most US investors are very positive about Ontario right now and its largely due to this new fiscal direction that we have in the province. Indeed, I found it quite interesting that a lot of people think that Ontario may be at a ratings trough. Even though the rating agencies are being quoted about their concerns about this plan going forward, the market view is that Ontario indeed in the next several years could be in for a credit rating upgrade.

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One of the ways I think we can measure the market's view of the province of Ontario is not what I'm going to tell you here today, but to actually take a look at how Ontario's debt is trading in global capital markets. The way we do that is to take a look at the spread between

US dollar Ontario bonds over US Treasury bonds, and that's shown in chart number 4. Excuse this messy chart, but it came directly off a Bloomberg screen. Basically, what that squiggly line is showing is exactly that. That is the difference between Ontario's US dollar denominated debt and US Treasury government debt. In the past, this spread had traded as if Ontario had a credit rating of a low single A. In other words, Ontario was being penalized in terms of its fiscal outlook in the marketplace. The market believed that the credit rating was at risk, and that interest rate differential rose. But as you can see from this chart, that spread has tightened and right now it trades closer to a AA. That is indicative of the market's confidence on the outlook for Ontario.

You can also see from this chart that the average spread between Ontario and Treasury's right now is about 55 basis points. That's down about 20 basis points from just two years ago, and indeed before the government was elected Ontario's spread was about 60 basis points over Treasury's. Post-election, as you can see in this chart, it narrowed back into 50. It got a bit of a bump during the referendum campaign, but post-referendum it's tightened back in very quickly, and as of today sits just 48 basis points over Treasury's.

A similar story exists for the domestic spread, which is shown on the next chart. Here we see that Ontario's spreads over Canada's—again, these are 10-year bonds—have narrowed significantly, and as of today they stand at just 27 basis points. It wasn't that long ago when Ontario's spreads traded well above those of New Brunswick and Manitoba, which actually have lower credit ratings, but that anomaly has narrowed quite significantly. Ontario is trading almost on top of Manitoba and New Brunswick. Again, this is a clear message financial markets are sending in terms of their confidence in the government's plan.

I asked US investors about the tax cut, because I think clearly that is the most controversial element of the fiscal plan. But when you talk to US investors, of course we can't forget that we're talking about a nation that, through Steve Forbes, is actually contemplating a 17% flat tax on all income. So these people are very familiar with the reality of taxation. None the less, US investors in general feel that there is absolutely no room for this government to raise revenue through tax increases. That's quite clear. On the converse, they actually support tax cuts as a way to restructure Ontario's tax base, ultimately to give the province more flexibility and more room to raise taxes if that ever was required, because right now I think Ontario is basically tapped out, with very little fiscal capacity for higher taxes.

US investors are very aware of how high Ontario's taxes are and they understand quite clearly the need to offset the fiscal drag of the spending cuts with tax cuts. Also, many US investors draw the parallels between Ontario and Alberta, the Klein revolution: deep spending cuts early in the mandate in order to lower spending to a point where budgetary surpluses are achieved and are sustainable. Unfortunately, of course, Ontario doesn't have the blessing of windfall oil and gas revenues, but none the less this strategy of cutting deeply and early is viewed very positively by international investors.

Ontario's ability to successfully borrow overseas I think underscores the market's underlying support. Here's where we can see the tangible evidence of positive market sentiment and how it's going to benefit the people of Ontario. If the fiscal plan is viewed positively, then Ontario will be able to finance its \$1-billion per month at relatively cheaper rates of interest. That will reduce borrowing costs and that will help turn around that trend line that I showed you earlier on with debt servicing steadily rising and eating away at Ontario's revenue dollars.

In conclusion, I focused a lot of my comments here on US investors. I did that because they do own the majority of the foreign-held debt, but I can tell you that the same view on Ontario is shared in London, in Frankfurt and in Tokyo, as well.

So while we here may debate the details of which programs are being cut and by how much and which political promises will be broken and which ones will not, what I hope I was able to do today is to move the debate away a little bit, into the markets, and highlighting the fact that the markets' perceptions of Ontario has already changed, and that with fiscal prudence the norm around the world, I think it's very dangerous for Ontario to stray from its stated course.

I'd like to thank you for the opportunity to come and speak to the committee today and I'd be pleased to answer any questions.

Ms Lankin: Thank you very much. That was very interesting. I do have to start off by acknowledging that some of the comments you've made about the comfort of the markets, and particularly the US markets, while I understand the importance of it, I also have a sense that we're talking about very different cultures, not just US and Canadian, but the marketplace and the values of the marketplace versus the job of a government and the need to ensure that our citizens have basic provisions. So I understand the points that you're making, but I think that in a longer period of time there are some points of discussion and counterpoints that should be addressed within that.

I wanted to ask you a couple of questions specifically about your presentation because I would say that you are perhaps in a slightly different place in your support for the government proceeding with the tax cut, almost no matter what, compared to many other people in the business community and in the finance community, and that interests me. It particularly interests me because of some of the arguments that you put forward that I may not have understood but I thought actually argued for some moderation in that approach.

You said that you thought the tax cut was actually quite critical in the government being able to achieve its deficit-reduction program; in terms of bringing the deficit to zero, that the tax cut was there. I on one hand understand the point you made about the political acceptance of the spending cuts. That if in fact the population decided that was a very negative approach of government and political pressure was put on government to slow that down, that could jeopardize achieving the deficit targets. That's one of the reasons why many people argue to a government: "If you're going to do it, do it in the early

years. Don't do it as you get closer to election." Everyone understands the political cycle that's involved there as well. You said that the tax cut may be an offset to the political downside of cuts and from that perspective it's important to proceed.

What I'm hearing, politically, out on the streets and in talking to people, is that they're quite concerned with the more domestic and perhaps—I can't think of the right adjectives—the political promises around not cutting health care spending, not cutting classroom education and law enforcement, and the concern that these cuts are happening despite the government's promises and the perception that it's being done in order to pay for the tax cut. More and more, people are saying, "I wouldn't be angry at the government if they didn't proceed with that tax cut if it meant that we either balanced the budget earlier and got ourselves out of this problem so that we didn't limit our ability in the future to restore some kind of a social safety net, or if we cut the difference, slowed down the cuts a little bit and balanced the budget a little bit earlier, I'd give up my tax cut."

I'm hearing that more and more, so I'm wondering, on the politics of it, whether you hear a different message out there. Could you respond to that for me?

Ms Croft: You're absolutely right. My perspective is vastly different than the political arena would be. A lot of what I do is talk to people who actually own the credit, and when you're sitting in Tokyo, London, New York, you're not concerned about which programs are being cut and what are the social costs, which is something obviously we can't ignore, but don't play a big role in the market realities. So, yes, the perspective that I bring today is vastly different than the political one.

Just to clarify something, the reason that I think the tax cuts are so essential is because I do think that the enormity of the spending cuts is creating a huge drag in the Ontario economy. The risk to the fiscal plan is, if it's not offset by these tax cuts, then we could end up with a significantly weaker Ontario economy with even less revenue, and that would cause deficits not to decline but rather to increase. So I see the tax cuts as being a critical offset in order to stimulate the economy, given that the spending cuts, for a large part, have already been enacted, put in place.

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Ms Lankin: Announced.

Ms Croft: Announced.

Ms Lankin: That's quite different. Just as the markets speculate and discount for what they think is going to happen, or increase, the public attitude and consumer confidence has taken some of this into account, but in many communities we haven't actually felt the impact of the cuts yet.

Ms Croft: Right.

Ms Lankin: Let me just explore this, because I think this is one of the issues that is very important: What will the stimulative effect of the tax cut be? I think you're quite right that the size of cuts and the drag on the economy either needs to be lessened—and there's one way of going about that—or offset. You sort of challenge the perception that the majority of this tax cut was going

to benefit the wealthiest. You used a four-year number for average Ontarians.

I haven't done four years, but just on an annual basis, more than half of that lost revenue—it's almost an expenditure on the part of government, a spending program—is going to go to families with annual incomes of over \$90,000 a year. Now, that's the top 13% of Ontario families. The average cut for those families is going to be \$4,400 on an annual basis. The average cut for 87% of the families in Ontario, with incomes below \$90,000, is going to be \$625. The average for families with incomes over \$150,000, obviously it goes up, then is \$9,400. For a single-parent family with an income between \$30,000 and \$40,000, the average is going to be \$345.

You acknowledged yourself the impact of the cuts to social assistance rates and what effect that had on consumerism and retail sales etc. We know that poor people, the working poor and middle-income people are more likely to spend any disposable income they have and that with higher-income people there's going to be more leakage—let's refer to it as that—of that money in terms of how it goes to stimulate the economy. I can't get past this real worry that the majority of the money that the government is paying out is going to go into savings, into perhaps some luxury items, perhaps holidays—a lot of leakage—not into stimulating productivity, production in the economy. So I worry that it's not the right stimulative effect. I'm not sure it's the right thing to do, but if you were going to cut taxes, I'd almost rather see them do it on the sales tax because I think it would have more of a stimulative effect in the economy to promote consumerism and consumer confidence.

Ms Croft: There are very different ways that you can package the tax cut. In response to your figures—I've seen them quoted as well—what I would like to see is an analysis of the last eight years. For that same percentage of the Ontario population that will benefit from the tax cut in a dollar sense, how much have they been hurt by the progressive increase in taxation over the past 10 years?

Ms Lankin: That's true.

Ms Croft: I would argue that what will happen is that the tax cut will actually benefit them less on a proportional basis. In other words, they're only going to be getting back a smaller percentage of what they've had to pay in the last 10 years as compared to the other income classes. But I think it's something worth looking at.

Mr Wettlaufer: Patti, thank you for your very enlightening presentation. It's different than anything we have heard, and we appreciate it. One thing that I would like to address is this issue of savings; the NDP and the Liberals constantly raise it. We heard this morning that the lack of confidence that the consumer is showing today is contributed to in part by the fact that their savings have been reduced as a result of the higher taxes. Do you expect that the savings rate of the average Ontarian would be increased and, in turn, that their confidence level would be increased as a result of the fact that the government would take less out of their pocket?

Ms Croft: I'm not sure that the savings rate and the confidence necessarily go hand in hand. If we look at not only Ontario but Canada in general, right now the savings

rate is at a 30-year low. The reality is that in order for people to continue to consume, to maintain a half-decent standard of living, they have had to draw down on their personal savings. If we look at the savings rate, you can actually disaggregate it into two components: There's discretionary saving, what you and I decide we're going to save, and then there's contractual saving, part of our pension plans. What has happened is that discretionary saving right now is zero or negative, so people are actually dipping into their RRSPs or whatever in order to continue to spend.

So in order to raise the personal savings rate, if you cut taxes I agree with Ms Lankin that what's going to happen is that some of that money is probably going to be spent as opposed to saved, because the people at the middle and lower income who do get additional disposable income will spend that income, as opposed to saving it. The people at the upper end could very well increase their savings, but that's probably not going to have a huge effect on the national savings rate.

Mr Wettlaufer: So there would be some lag time there.

Ms Croft: Yes, I think so.

Mr Wettlaufer: To carry that one step further, then, looking at how the foreign markets look at us and the fact we will have reduced interest rates for Ontario, that in effect reduces the Bank of Canada rate and it in turn reduces the interest rate that people would have to pay on hard and soft consumer goods and mortgages etc. That would increase their savings and would increase their discretionary spending.

Ms Croft: I don't think Ontario necessarily sets Canadian interest rates, unfortunately. My point is that Ontario's spread or difference over Canadian rates—that can narrow, which will reduce Ontario's debt servicing costs and get us on a firmer footing, and that will benefit people in Ontario, because if we're paying less in debt servicing, we can pay more on program expenditures.

But in terms of that having an impact on Canadian interest rates, maybe a little bit at the margin, but those Canadian interest rates again are really determined in the global marketplace. That's the view of Canada; it's a standalone credit. What the government's fiscal plan can do, though, is to lower the difference between Ontario's interest rates and that of the Canadian government, and that will have a positive impact, yes.

Mr Hudak: I'll ask a couple of quick questions, if I could—Ms Croft, thank you for your presentation—then I'll pass. I think Mr Brown has some questions.

As I mentioned to the last group, we've heard a couple of different models on how to reduce the deficit. One sponsored by the OFL and CUPE, I think, was to maintain government spending at its current levels and reduce the deficit and debt by permanently lowering and freezing interest rates at some arbitrary level. First of all, is that possible to do? Is their model based on a fallacy?

Ms Croft: Again, I'm going to bring you the Bay Street perspective, but I would say absolutely not. Canada does not operate in a vacuum. That experiment has been tried. That experiment is being tried right now. If you look at the difference between Canadian and US short-term interest rates, right now it's almost zero. My

concern in the marketplace right now is at some point international investors are going to wake up and say, "Wait a minute, I'm getting no risk premium for investing in Canadian short-term interest rates?" The Canadian dollar is either going to weaken off or that spread is going to have to widen. So that argument would be very nice if we could lower interest costs, because that's what's driving deficits in Canada to a large extent, but it simply doesn't work in the global marketplace.

Mr Hudak: Yes, it's a small global economy. It's economic fiction to think we can permanently lower interest rates.

My second question also addresses another model we've seen where they more or less will say that a dollar spent by the government is equivalent to a dollar spent by the private sector; if you raise a marginal dollar through an income tax rate hike, the cost to the private sector will only be one dollar, but if my understanding is correct, they're not including any kind of incentive effects, any dead-weight loss, any administrative effects. Am I right in my thinking?

Ms Croft: Yes, very much so.

Mr Hudak: What would be the cost, do you think, of raising an additional dollar?

Ms Croft: Through taxation?

Mr Hudak: Through an income tax hike.

Ms Croft: I think that would be disastrous, because it would be just so out of step with what's happening everywhere else around the world and in every other province in Canada. To even consider raising taxes I think is out of the question.

Mr Hudak: One economist, I think it was Bill Robson from the C.D. Howe, said that it costs an additional dollar at commercial tax rates; it would be \$1.40 to the private sector. The converse would be if we lowered the marginal tax rate by a dollar, the gain of the private sector would be even greater than a dollar. Am I right?

Ms Croft: I don't have a model that has pumped through the numbers, but my own intuitive sense is just that, that it would have tremendous spillover effects, because I tend to believe that a rising tide lifts all boats and that what a tax cut would do is, even though the numbers say it's going to disproportionately benefit the wealthy in the province of Ontario, the numbers also say it's going to put money back in the pockets of lower- and middle-income people. They're going to spend that money. That's going to create demand, that's going to create jobs and production and it becomes very much a self-fulfilling circle.

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Mr Carr: Thank you very much. That was an overwhelming endorsement of the government's program. As you know—and I've watched Mike Harris say it many times—what we're doing is, we're downsizing the public sector while we upsize the private sector, and he said that everywhere from Wingham to Wawa. I can tell you this, he is determined to continue with that. I think also, knowing the Minister of Finance and the Premier as well as I do, that they are now looking past that. Once we balance the budget and are in a position five years down the road, I think they're thinking: "What do we do now? Pay down the deficit or further reduce taxes?" Because I

know they're determined to follow through with this plan, they will. That's what you're suggesting they do. I can tell you, I think they will.

But giving them suggestions down the road when we hit this point of the balanced budget, with our tax structure being what it is, what would your advice be long term: continue to lower taxes or to get that debt taken care of in terms of paying it down? What would your suggestions be to the minister?

Ms Croft: Well, I guess the first thing I'd have to say is that I'm assuming we exclude the political cycle because we've seen what's happened right now in Alberta. They're at the point where they are running large budgetary surpluses well in advance of the plan, an election is forthcoming, and suddenly there's some hints that perhaps debt down payment isn't as critical an issue, perhaps there are more fundamental things we should look at like reinstating some funding for certain programs. So the political cycle is very much going to play a factor in that decision-making process.

Personally, my advice would be to pay down the debt because that is the legacy we will pass on to future generations of taxpayers in the province of Ontario. If we get to the point where we get the deficit down to zero, we're running hopefully a small, sustainable budgetary surplus, then I would like to see any additional revenues put towards paying down the debt as opposed to increasing program expenditures, or even further cutting taxes. I think the debt down payment will be the critical factor once we get the deficit down.

Mr Kwinter: Thank you very much for your presentation. I found it very interesting. I agree with virtually everything you said—not everything that you've said—in theory. In practice I have some concerns.

First of all, on your chart, I'm sure you'll agree that when you fill your debt servicing and percentage of revenue, during the next four or five years those bars are going to continue to climb. So what is going to happen is, you're not going to see a sudden downturn, it's going to keep going up. We have to deal with that particular aspect, that regardless of what else is happening, you can't put on weight for 20 years and expect to reduce it all in one year. It took you 20 years to put it on, it may take you two years to take it off.

What is going to happen is that you've got your debt servicing continuing, and I don't think anybody, other than some groups that have a particular interest, is in any way objecting to getting your fiscal house in order, not increasing taxes. No one is coming—I shouldn't say nobody—virtually no one is coming forward and saying, "We've got to raise taxes." Everybody admits, taxes, it's a non-starter. Everybody admits the government's got to get its house in order.

The problem we have is that everything is being done on an economic model. You come in, you sit on Bay Street, and you've got to worry about where you're attract capital, where you're going to attract investment, because capital is fluid, it will go where it will get its best return. If it can't get its best return, it isn't interested in your internal problems, they're gone. Would you admit to that?

Ms Croft: Yes.

Mr Kwinter: Okay. So what I'm saying is that you're saying that if you do the cuts, program cuts, without the tax cut, it's like putting a Band-Aid on it. You've got to do them both. My concern, again in theory it works beautifully. You can model it, you're doing fine, but you're not doing it in the real world, because in the real world you've got Metro announcing today they're going to put a 1% tax levy to finance the subway, and then you've got North York saying they're going to charge \$5 a bag of garbage, and then people are talking about user fees. Now the government itself, through its Bill 26, is opening the door for a whole range of user fees. So what, in fact, could happen is the amount of tax saving with the cut not only gets eaten up entirely, but could even be greater than what the tax cut is. So on that side of the equation you have a total unknown.

On the other side of the equation, you know that the government is fond of saying that the debt of Ontario costs \$1 million an hour. The tax cut is going to cost about \$1 million a day to service. That is a constant. Once you make that decision, that is a total constant. What you don't know is what the positive impact is going to be. And it could be very negative, because there could be no real tax benefit to the taxpayer because the federal government is a player and may do something to them, the regional municipal governments may do something to them, and there's also the added component of the drag on the economy from the federal and provincial measures. Could you respond to that?

Ms Croft: Again, I'm going to put on my Bay Street hat and say, "How are financial markets going to look at that?" That would be a concern if it began to appear as if much of the revenue that would be put back into the economy through the tax cut would be taken away through user fees and increases for taxes on certain services. That would become a concern to those foreign bond holders for the very reasons that you've stated, because it could very well mean that the offsetting stimulus provided through the tax cut could entirely be eaten away if indeed we do see increased user fees and so on. That would reduce the economic benefit and potentially reduce the revenue effect for the province of Ontario and again make deficit reduction and deficit reduction targets much more difficult to achieve.

What I bring to you today is the perspective of where we stand today, and that is, there is complete support for deep spending cuts early on in the mandate. There is large support for tax cuts because they are seen as being absolutely critical to offset the fiscal drag of the spending cuts, but the issues that you raise are ones which are not currently being priced in the market but, I agree with you, are concerns that ultimately could appear.

Mr Kwinter: That was the point I want to make. When you bring the perspective of the market, the market doesn't look at all of the other aspects of it. They're saying, "In theory, of course, if you're going to put that much more money into the economy, it's going to do all of these things."

The interesting thing, and I know there certainly is some controversy about his proposals, but Bill Robson of the C.D. Howe Institute was here and claimed that the problem in the economy of Ontario, and I assume in

Canada, is not consumer spending, it's consumer saving, and that one of the problems that we have is that people are spending too much money. It seems to be a contradiction and I haven't quite got my head around his particular concept. Certainly the C.D. Howe Institute has got some credibility and this is what their feeling is. Do you have any comments on that?

Ms Croft: Just that the reduction in savings, what that means for Canada and for Ontario is that if there is a reduced pool of domestic savings in order to finance deficits, we can't finance them internally because a dollar of savings is not there, so we as a country or we as a province have to go out into the global capital markets to finance any shortfall. If Canadian consumers continue to spend for standards of living as they were five years ago, and yet the income growth isn't there, then they are eroding their personal savings to do that. That's saddling them with an enormous load of debt, making them vulnerable to any interest rate shocks, and it's also reducing the domestic pool of savings to finance government dis-savings. So what it means for Canada as a whole is increasing our foreign reliance on capital inflows because we can't do it domestically any more.

Mr Kwinter: I have two short questions that I'd like to ask you. One is your comment that the average—I assume, Ontarian, and maybe Canadian—not only has depleted their savings but are actually in debt, which means any tax cut they get may not necessarily go to spending, it may go to paying off debt and trying to top up their savings. Secondly, your comment about Alberta, and I notice with some interest and some—not dismay but I couldn't quite also figure it out. Everybody is touting the Alberta model. Today the Ministry of Industry in Canada announced bankruptcies in Canada at their highest level in history and the largest component of that is Alberta bankruptcies.

Ms Croft: Business or personal?

Mr Kwinter: Both.

Ms Croft: Both, in the province of Alberta. As I said, Alberta has benefited tremendously from these windfall revenues from oil and gas, so that's really helped them achieve budgetary surpluses well in advance of what the plan had indicated but, yes, there have been economic costs. Fortunately, Alberta already was in the position of a relatively low level of taxation, but even they're talking about tax cuts in order to help offset some of the fiscal drag. But the costs are real, yes.

The Chair: Ms Croft, thank you very much for appearing before the committee today speaking about the economy and making it interesting, or indeed a challenge. You've accomplished that today, and we thank you very much for appearing before us.

Mrs Croft: My pleasure.

The Chair: That concludes our presenters for this morning. There is the item that we were going to discuss, referring to the proposed outline of the committee's pre-budget report and the proposal that it would be done by topic or by witness. It is my understanding that there is some proposal concerning that. Did you have a proposal as to whether we would write our final report—

Ms Bassett: Excuse me, I just heard as I came in. Yes.

The Chair: —by topic or by witness?

Ms Bassett: We were going to do it by topic. We feel that's best.

The Chair: By topic? I understand that this is somewhat traditional. Is there any discussion about it?

Ms Bassett: Is that all right, Tony? Thematic, it's easier.

The Chair: If we can give that direction to our researcher then, that would be very appropriate. I'm sorry to infringe on our lunch-hour, but it is today truly a lunch-hour. We will see you all at 1:30. The committee stands in recess.

The committee recessed from 1231 to 1332.

The Chair: If I could call the meeting to order and welcome everyone back from lunch, the committee has before it a submission from the Ontario Secondary School Teachers' Federation. They are unable to appear before the committee, but they wanted us to have their written submission.

BOARD OF TRADE OF METROPOLITAN TORONTO

The Chair: It's my pleasure to welcome the Board of Trade of Metropolitan Toronto to the committee. Welcome, gentlemen.

Mr Mike Lauber: I'm Mike Lauber. I'm vice-president of the Board of Trade and I'm a partner at KPMG. Don McIver is the chair of our economic policy committee and he's the chief economist of Sun Life, and I think you heard from him earlier in the week with that hat on. John Bech-Hansen, who is the staff economist with the board of trade. We very much appreciate the opportunity to appear before the committee today and present our views. We're basically focusing on the issue of deficit and tax reduction.

The board's been appearing here over many years, and we're very happy to be here again in support of the government on its initiatives. We believe that the government's fiscal and economic policies are on the right track and we very much support the speed with which you're acting to get things in order.

This government's focus on the deficit is very well placed and I think we have to emphasize that the deficit is the number one item in our agenda. Ontario and Quebec have been lagging in starting on the road of deficit reduction. We're pleased to see Ontario is now well established and Quebec is starting to make some noise.

The previous track of the previous governments and so forth, running at \$9-billion and \$10-billion deficits a year, was just going to lead us to bankruptcy. With the economy appearing to stall from time to time, it was really a particularly dangerous position to be in.

I understand this committee is particularly interested in the business community's views on the 30% tax reduction, and we'll try to frame that as we talk today. We understand obviously that it's a central plank to your platform on election.

It's a difficult one. There are differing perspectives on this issue in the business community. We've had a lot of debates within our own group as to the order on it. There are those who believe that an immediate substantial tax

cut is essential in order to restore confidence in the province and put some real spending power back. Subscribers of this believe the tax cuts will create a dynamic effect in the economy and a multiplier effect with consumer spending and create jobs and so forth. This is the central thesis to the Common Sense Revolution. The trouble is, the broader continental or global slowdown could short-circuit the whole process, leaving the government with an even larger revenue shortfall and nothing to show for it. So there's a risk in that direction.

Others primarily believe that the objective should be to get to a balanced budget and surplus as quickly as possible, the attainment of which might be compromised by offering the tax reduction now. As you know, at least one bond rating company is firmly in this camp. It takes a more static view of the impact of cutting taxes, that it will simply result in lower revenues and minimal stimulus to the economy, especially if there's another recession.

Both viewpoints accept the need to eliminate the deficit; what divides them is the perspective on the dynamic effect of cutting taxes. The board strongly believes that the number one objective is the deficit reduction.

Income tax relief is urgently needed in Ontario. We have among the highest rates in North America, second to British Columbia. Member surveys that we and other organizations, such as the Canadian Federation of Independent Business, have conducted indicate that it's one of the stronger deterrents to business investment in the province. It's also a major factor in driving the underground economy.

In the United States, there are two states that have marginal rates approaching that of Ontario, but you're only reaching those levels at the \$250,000 income level, and that makes a big difference from the place where we're reaching it, which is the \$60,000 range. In addition, the US has much more liberal deductions in completing income tax, such as mortgage deduction.

Compensation studies by William Mercer and Price Waterhouse really do show that the US income tax system does play an important role in attracting the best and brightest of the Canadian labour force. It also makes it hard for Canadian-based multinationals to attract people from the global workforce to come to Canada. So I think we really have to focus on those rates as well.

Credibility is at stake, I know, for this government. You promised the tax reduction. You have an obligation to deliver personal tax reductions in order to maintain that credibility.

I think it's fair that you should not expect immediate results out of a tax reduction. It's going to be a long-term effect. It will make the province a better and more attractive place to invest, to be an entrepreneur or to stake out your career. It should not be treated as a tool for creating immediate economic stimulus. Current high personal debt loads, low consumer confidence and lack of security in employment will result in these tax cuts mostly being saved. They're going to be used to pay down a mortgage, they're going to be used to put into an RRSP; they're not likely to be used to buy a refrigerator or a car or other consumer goods that may drive the economy quickly on a short-term basis.

Our fourth point is that we believe that the cut does not have to be a flat 30% across the board; it can be a variable cut. I think you have some flexibility in proceeding on that basis with this tax cut.

In those issues, I think the deficit is the number one thing. The tax cut: You promised it, people expect it, you must deliver it. I think there's some flexibility on timing and on the way that you implement that.

I'll pass it to Don, to deal with the final point.

Mr Don McIver: Basically, that brings us down to the recommendations that we would like to put forward.

The first thing that we would strongly suggest is that we see as soon as possible, that the community see as soon as possible an explicit plan as to how the government expects to achieve the twin goals of eliminating the deficit according to its fiscal plan and achieving the tax reductions that have been promised. The last statement in November didn't provide us with that information, and we would strongly suggest that the Ministry of Finance provide us with the explicit path, hopefully in the next upcoming budget.

Again, with respect to our recommendations, we emphasize the importance of keeping to that balanced budget target, to that path. You heard perhaps, if you recall earlier in the week, my observations with respect to the desirability of mounting a contingency plan, as opposed to contingency funds; that is, a thought-out-ahead-of-time program that would address what would happen if growth is slower than anticipated, interest rates are higher than anticipated.

1340

As Mike suggested, there's some degree of variability that can be attached to when you bring in the tax cuts and the magnitude of the cuts when they occur. So a well-thought-through program ahead of time would communicate to the community, to the financial community and to the citizens of Ontario, what they could expect from government in the event that the economic environment was not as friendly to the stated paths of government as had been anticipated or as may be anticipated at the time of the budget.

In fact, we would ask that, having done that, having put that program together, the government then involve members of the economic community, of the financial community, of the rating agencies—the general interested observers of the economies of the province's fiscal condition—involve them in reviewing that program for them to be assured and for government to be assured that it is a viable program.

As was suggested, we really believe that this process can go a very, very long way to mitigating the uncertainty that exists today and that is in all likelihood likely to persist during 1996. With that, I think we're available to answer your questions.

The Chair: Thank you very much. We have a six-minute round. We will start with the government. Mr Spina.

Mr Spina: I'm sorry, Mr Chair; I thought I was fifth on the list.

The Chair: No, there were only four people.

Mr Spina: I'll defer to one of my associate members, if I may.

Ms Bassett: Mr McIver, nice to see you here again. I'd like to pick up on one of your last points, about the need to establish consumer confidence out there. I think in the Sun Life presentation you were pointing out that we need to hear about a plan and then almost a contingency plan. I wonder if you'd just elaborate what we'd need in that plan other than, I think you said, we'd reduce taxes and how we'd reduce spending. Do you see other things in that?

Mr McIver: First of all, the first building block that you have is a budget that says what you expect to happen under the most likely set of circumstances. Then in the event that an untoward, unforeseen event occurs, which as an economist I know all too well dominates the scene; it doesn't matter what your base-case scenario is, the chances are pretty good that something is going to come along during that period, especially in today's environment, to upset it.

So all I'm suggesting is that ahead of time—that is, with the budget—you say, to use a specific example: "Okay, we would like to introduce the first tax cuts effective January 1, 1997. In the event that the fiscal plan is being thrown offtrack by slower-than-anticipated revenue growth because the economy, instead of growing at 2% or 2.5%, is growing at 1%, or in the event that there's an interest rate spike, we will then do the following."

Ms Bassett: Of course, and you want to see it in the budget, the contingency.

Mr McIver: Precisely. Again, the pre-eminent goal is to meet the fiscal path. If government is unwilling to reduce the amount of tax cut, because it's part of the economic parcel, then tell us where you would cut additional spending from the economy to maintain the integrity of the fiscal path.

Ms Bassett: And that does not throw people off.

Mr McIver: That's right. I mean, all you're saying to people is: "Look, you know as well as we do what today's GDP is. In the event that it's 1%, this is the course of action that we would pursue rather than the stated course of action that we intend to pursue if it's 2.5%."

Mr Spina: I'm better prepared now to ask a question. Gentlemen, thank you for the presentation. As a former president of a board of trade myself, I can appreciate what you go through, because we did many of these same things when I was president five years ago. Lobbying hard against the employer health tax: You may remember that little battle.

What I wanted to indicate was that earlier today we had an economist who indicated that the tax cut, if it was limited to about \$2 billion in the next two years or to the end of the 1997 calendar year, I guess, would probably be able to be absorbed, provided we were able to keep our deficit reduction targets on schedule. Is that a reasonable comment for that person to have made?

Mr Lauber: We don't have a model that says that. We don't have any ability to model that. What we're saying, though, similar to this economist, is that your deficit targets are sacred and, bearing that in mind, to the extent you can proceed with tax cuts, that's great. If you proceed too quickly with the tax cuts and miss your deficit targets, we'll be back here telling you about it.

Mr McIver: I would just quiz you as to exactly what that economist was telling you. Was he saying that your fiscal path can be maintained and you can give a \$2-billion cut in taxes without prejudicing that fiscal path? Is that the issue?

Mr Spina: As long as we maintain the reductions in the debt at the stage or at the levels that we are continuing to pursue, the \$2 billion, which according to the Common Sense Revolution is the 15%—in other words, half of the 30%—in the first year we would introduce it, whether it was 1996 or 1997. It was a she, by the way, and she indicated that it would be able to be absorbed. Even with the economic drag that is in place, we would be able to, as a government, because of the current consumption levels, sustain that.

Mr McIver: Sure. But you are going to have to, in the budget, spell out of course the necessary expenditure path that is going to enable you to achieve that. It's reasonable, but you've only got two thirds of the equation, I guess. You need the other third, and that's going to be specified in the budget.

Mr Spina: So once that's laid out, do you feel that would give a larger degree of confidence to business, and particularly perhaps to small business, which we know comprises a majority of your membership and employers in this province?

Mr McIver: Absolutely. I guess I'm taking off both my Sun Life hat and my board of trade hat when I say this and just speaking as an economist, but quite frankly, I think the major benefit of the tax cut is really twofold. One is the credibility, because it's been promised. But most important, it's the confidence that comes, as Mike has suggested.

It doesn't necessarily get spent and there aren't any grandiose multipliers that are going to come into play that, in my opinion, are going to result in a major thrust to the economy. But the single most important part of the tax cut is that it says that Ontario is ready to do business in a businesslike manner and is ready to start giving its citizens and its taxpayers the opportunity to make individual decisions as to how they spend their money. That is a tremendous confidence booster.

Mr Spina: So it's as much a psychological factor as a dollar figure. Thank you.

Mr Kwinter: I'd like to pick up on that last statement. I think I could fairly say that I am perceived as a fiscal conservative. Bill Davis once said to me that I was far more conservative than anyone he ever had in his cabinet. If I thought in my mind that this tax cut would help, why would I not support it? Of course I'd support it. I happen to be in the camp of the bond rating agencies, who don't see this as something that you can really count on. It may happen, but also it may not happen, and if it doesn't happen, we're going to be in worse shape than we were when we started.

What I'd like to do is address your number two point where you say credibility is at stake. I think this is the crux of the problem in that you have to understand that the Common Sense Revolution was an election document. It wasn't a governing document. It was issued two full years before the election, and I think my friends on the other side, if they were truly honest with themselves,

when that document came out and they were at 27% in the polls, most of them did not expect to get re-elected, and they've told me that.

Mr Carr: Yes, we did.

Mr Kwinter: Give me a break. Some of your cabinet ministers have told me that. But just one minute. What I'm saying is, that was an election document. Now they are a governing party and their credibility is gone already on Bill 26, and the next poll, they'll be down to their core support. So it has nothing to do with credibility; it has nothing to do with the Common Sense Revolution. It has to do with economic sense, and I'm saying if I could be shown, and others as well—I'm not in isolation—that this was going to work absolutely, why would I not be supporting it? I'd be out at the front lines saying: "Absolutely. Let's do it."

1350

I commend you. Your document is balanced. You're saying, "Yes, we think so, but..." and you then outline all of the potential problems. I'm saying it's those potential problems that bother me, because if they're wrong, and there is a chance that they could be wrong, we are going to be in far worse shape than we were if they didn't do it. As I said to the bankers today, before you declare a dividend, get your house in order. Then declare the dividend. I'd like to get the response to that.

Mr Melver: That's our case. That's exactly what we've been saying. I am not as agnostic about the prospects of the Common Sense Revolution working. I'm not 100% in the camp, I have my doubts, but it's as good a play as some of the broad Keynesian approaches that we've taken in recent years.

Our bottom line in everything we have said is that the deficit comes first. The reason I say we are in your camp is that I think the notion of a contingency plan addresses precisely the concern you're raising. That is, what if during the year, as things progress, you see, "Hey, it's not working"? Whether it's because of external circumstances or because the program is fatally flawed, it doesn't matter. If it's not working, then how do you react to it?

I think it is incumbent upon government, and it's probably incumbent upon the opposition too, to have a sense of what should be the response if it's not panning out. You certainly don't want to go to the credit rating agencies and say, "Hey, take this on trust." What you want to be able to do is to go to them and say: "Look, this is what we think. If it's not turning out, this is what we're going to do." I don't really see any conflict between what we're saying and the concerns that you're raising.

Mr Kwinter: I don't have a conflict with you; I have a conflict with them. But I've learned the hard way. During the campaign—and I was Minister of Financial Institutions, of Consumer and Commercial Relations, of Industry, Trade and Technology, all of the economic portfolios, and I was one of our chief spokespersons—I went to see the bond rating agencies and I went to see the people who sold our paper and who bought our paper. We gave them a fiscal model that we were campaigning on, and it's no secret I opposed our government's position on the 5% tax cut. I said: "Why would you put

yourself in that kind of straitjacket? Let's see the results, then do it."

But the number one question that I was asked by everybody was, "Yes, that sounds great, but what if it doesn't happen?" You say, "Well, then, here's what we're going to have to do." "Well, you don't tell us what you're going to have to do," and that's why I support what you're saying. But that is the number one question: What if it doesn't happen? And my question to you is, what if it doesn't happen and there isn't an effective contingency plan?

Mr Lauber: All you can do is go with further cuts in other areas. You're not likely to turn around and raise the taxes again right away, are you? That's the risk, and if the government wants to proceed, if proceeding with a substantial tax cut puts the deficit reduction at very high risk, then I would caution them very, very strongly against doing that. If all the indicators are that it's a fairly nominal risk in achieving the level of tax cuts, we'd love to have them both, obviously. Everybody would love to have the tax cuts and the deficit targets. It's just a question of the risk and balancing it off.

Ms Lankin: And free lunches are a wonderful thing.

Mr Melver: Absolutely.

Ms Lankin: Exactly. Let me continue on this point, because Mr Spina told you about an economist who was before us this morning. The gentleman said, on the basis of looking at the plan as he could see it now, without any expenditure projections or revenue projections—limited information—that the first \$2 billion of the tax cut might be achievable with the deficit targets being maintained if in fact the expenditure reduction announcements are carried through with. Of course, that was the key piece to it. But he went on to say that to do anything more, ie, the rest of the tax cut that had been promised, would take, in his estimation, at least another \$1.7 billion in cuts to finance that. So he was raising the prospect that what we've seen so far isn't enough to make that fiscal plan work.

Your point—I'll read it: "As yet, the government has not produced detailed revenue and expenditure projections which demonstrate" the feasibility of the twin goals. You're absolutely right. Perhaps where I differ with you is that it's not only in the budget that we should be seeing that. We should be having that information in front of us today so that we are commenting on what options there are to deal with the scenarios.

We know economic growth is slower; projections now are slower than in the November statement. That means probably lower revenues coming into government than in their November statement; that means, when we see the decline in retail sales performance, slower retail sales tax coming in etc. So we know that probably there's a flatter revenue line than they had projected. That's a larger deficit, unless there's corrective action, which is either greater expenditure cuts—should that happen or should they slow down on the tax cut? This is the kind of advice that we could be giving if we had any real information in front of us, so I object profoundly to the position that the government has placed these hearings in and the public coming forward to participate.

The other thing I wanted to address—I'm sorry I'm not asking specific questions here—is that you said this is good if it works, but what if it's not working, the government's plan to implement only so many cuts and balance the budget and give a tax cut? It is already not working, because part of their plan was a very clear promise to the people of Ontario that there would not be cuts to health care, to classroom education or to law enforcement, and we have seen cuts in all those areas.

I understand perhaps from your perspective that you understand that and can accept that, but on the basis of the Common Sense Revolution, which you referred to, it's already not working, because it was a promise of a free lunch and there are no free lunches. The people who went out on the campaign and said, "You can't lower taxes by that amount, balance the budget and protect health care, education and law enforcement spending," were right. It can't be done. So there are tradeoffs, and I think that's what we should be advising on: What are those tradeoffs?

I appreciate the point you're making, and again, particularly Mr McIver, your pitch for the contingency plan. I think it makes a lot of sense. I suspect that Ministry of Finance officials have been on the phone and on planes down to the bond rating agencies as of yesterday and today, trying to reassure them that the minister really does care what they think, because if we see any kind of a credit watch or a decline in our credit rating, our cost of borrowing will go up and it throws the fiscal plan off again. It means we'll be paying more in debt interest to borrow the money to give the tax cut, and I sort of worry about all of that.

The psychological point that you make about the tax cut is an important one—consumer confidence and government credibility, all of that's very important. It's a bit intangible. The results aren't clear immediately. What I wanted to ask you is if you have to take greater cuts in government expenditures because of lower economic growth and revenues or whatever in order to keep that promise, and you experience the economic drag more up front and the economic benefits are more long-term, would you argue for a modification of the tax cut, perhaps not quite as much up front, or a slower pace, or do you think it's so important that it be done right up front, so if in order to meet the deficit targets something has to give, it should be greater cuts to spending?

Mr McIver: I'll just pick up on a couple of points. First of all, one thing to bear in mind is that in the event of a slower economy, particularly if it's a consequence of a slower economy in the United States, the prospects are that we'll have lower interest rates; that is, the debt service burden will be declining. You can actually experience expenditure cuts which are not program expenditure cuts. I make that as an aside.

1400

The issue of how you should address the balance between further expenditure cuts and the tax cuts is a very difficult one. If you will recall, earlier in the week when I met with this committee I suggested that there were a lot of never-befores in the Canadian and in the Ontario economy. What those never-befores mean to an economist—our stock in trade is historical data. We

extrapolate, just as people in Finance do, on the basis of historical relationships and trends. If those trends and those relationships are no longer bearing fruit, if they're no longer true—and I know you've probably had a lot of people come in here and present different models and come up with different conclusions from plugging in different numbers—then the whole basis of those models is rather suspect. That applies indeed to the Common Sense Revolution, as it does to any other economic model. The Common Sense Revolution is based on an economic model that says certain things will happen if you do certain things. Hence my personal concern for, what if things don't work out that way? I recognize that. But to answer your question, there isn't a simple answer. I wouldn't like to try to hazard that answer without a good deal of thought, under the circumstances that prevail when I have to make that decision.

Ms Lankin: And some information in front of us as to those circumstances.

Mr McIver: Yes, but you're never going to get 100% of the information, any more than the people at Finance are going to get 100% of the information. They're flying blind whether they're working for you people or whether they're working for those people.

It's a very difficult call to make, and it needs to be made in the context of the prevailing environment. It is a philosophical decision based upon one's political philosophy. I have no doubt that the answers you would get would be quite different from the answers they would put together, and I couldn't promise you that one would work and the other wouldn't.

The Chair: Thank you, Mr McIver. That brings our time to a conclusion. We appreciate the Metro Toronto board of trade coming in and presenting to us today.

ONTARIO ASSOCIATION OF CHILDREN'S AID SOCIETIES

The Chair: The next group before us is the Ontario Association of Children's Aid Societies. Mrs McConville will be presenting.

Ms Mary McConville: Thank you, Mr Chairman. I'm executive director of the Ontario Association of Children's Aid Societies. I hope I don't lose track or squint here or something. I've had some eyedrops put in my eyes and I'm not seeing very well.

Before I begin my presentation I would like to draw your attention to what's in your package of material, because if you have a few moments—I know you're pressed for time and have many presentations to consider and a lot of material—I think it would be of interest to you to take a look at what's in here. The orange document is just a very brief position paper that several children's associations submitted to the Minister of Community of Social Services on the restructuring of public services. We've also attached previous recommendations to this committee on the subject of restructuring and child welfare services.

This book is something that I think you will find educative if you don't know a lot about child protection services. It's called the Intervention Spectrum, and it is an eligibility tool for intake workers. It defines the

legislation of the province, the Child and Family Services Act, and attached to the legislation are risk factors. We use this for public education purposes, as well as for the use of front-line workers. I think it gives you a good feel for the kinds of decisions that front-line child protection workers are making and the kind of cases that come to the attention of your child protection agencies in the province.

Given that this is a budget committee, I think you'll find this article—I'm sorry. It came from Wisconsin so it's not very clear, but it's worth reading. This article demonstrates the link between inadequate family income and pressure on child protection services, and it particularly takes a look at the state of Wisconsin very recently. This is one of the leading states in the USA, as you may know, on social assistance reform, and that state has watched some of the fallout of the transition that took place in the state in terms of reduced social assistance payments to families. Their foster care costs have absolutely skyrocketed in a relatively brief period. Their costs have in fact increased tenfold since they began their social assistance reform process.

I don't want to suggest for a minute that social assistance reform isn't needed. That's not the point of this document being in here. What we're trying to ask people to do is give some really careful attention to the social policy that's attached to social assistance reform and the impacts of social policy, because some unintended impacts are inevitable if we don't learn from some other jurisdictions.

There's also some material in there for you that just defines the purposes of a children's aid society, your child protection authorities and some fact sheets.

Since we last appeared before the committee approximately one year ago, a new government of course has been elected in the province, and the government has made a commitment to the people of Ontario to reduce the deficit and to reduce government expenditures and has made a further commitment to redefining its role in our society and to the restructuring of public services, both inside and outside of government.

We'd like to recognize this new mandate and speak to you briefly today about the impact of the changes in our society on the vulnerable families and children served by the children's aid societies of the province. The children we serve—as you know, there are thousands of them—are not the children who are safe in their natural homes and they are not the children who are often safe in certain communities in this province. They are the most vulnerable children in the province because of that, because the place that should be the safest place—that is, home—is not safe.

Children's aids work with thousands of vulnerable children in their own homes and we cooperatively work with hundreds of organizations across the province, including schools and doctors and all kinds of other organizations to provide support to our system so we can strengthen, wherever possible, high-risk families to maintain the children they are responsible for themselves.

When children are removed, which does happen, without the consent of parents, that only happens in situations where children are considered in need of

protection, and the family courts of this province ensure that these most intrusive measures, such as apprehending a child and admitting a child to care and court-ordered supervision of families, are only used when other, less intrusive approaches to support have failed or are not viable, given the difficulties of the family.

The child welfare system in Ontario, I feel it's always important to mention, is rather unique in Canada because it has strong community roots, which is not the case in many of the other provinces. It does make extensive use of volunteers and consumers, parents themselves, and children, who are all integral to the planning of our services and the delivery of our services. We have an extensive network of volunteers who work at all levels of the organization, from the board level all the way through to front-line assistance with foster parents and staff.

1410

The principles of community-based care and support have been practised in this province for decades. Each year the children's aid societies of Ontario provide substitute care to more than 18,000 children. We also serve approximately 100,000 families every year—that's a substantial increase since the early 1990s—and in those 100,000 families there are thousands more children we try to keep safe while they're in their own homes.

You might be interested to know that 43% of children in care in the province are wards of the state or wards of the crown; they are the responsibility of this province. Also, 11% of the in-care population are children between 18 and 21 who are trying to complete their education and move towards independence. These are also wards of the state, who are on their way towards independence.

Throughout the recession of the 1990s the demand for services has continued to outstrip our resources. CASs cared for an increase of 4% more children in 1995. That may not seem such a dramatic increase, but when it comes to costs it is a very substantial increase for the child protection system. The cost of caring for a child in care is at least 10 times the cost of caring for a child in the family in the community, and often far more than that. But at a minimum it costs you \$10,000 to service a kid in care and more like \$1,000 to \$1,200 to serve a child in the community. Some of our kids in care cost \$60,000 a year and more.

Two per cent more families received service from children's aid societies as well. What we're finding, in the late part of 1995 and early 1996, is that the increase in case openings is continuing. The observations of our staff right across the province are that the pressures are related to the protracted impact of the recession, the jobless recovery, unemployment and other stresses on family life.

Families and many community service agencies tend to turn to CASs as a last resort when the other community supports fail. We're particularly concerned about multiple impacts of cuts on community services, because we work with schools, we work with family doctors, we work with public health services, we work with community health agencies for children. When these organizations are all beginning to contract and lay off staff we need to work with to support high-risk families in the community, that tends to increase the pressure on the fail-safe system, the

CAS system, to provide the service when the community no longer has it.

We've drawn your attention here to the impacts of poverty on children, and there is a direct link to child welfare services. A very large proportion of our clientele is single parents, parents on social assistance, people with inadequate income.

The children's aid societies, all the while they're trying to cope with the fallout of broader societal pressures, have continued to see decreases in their base budgets and have tried in a variety of ways to find savings within their system. We are, though, finding this increasingly difficult to do. Administrative costs have been reduced, programs have been eliminated, staff has been cut, but the families keep coming.

We are noticing a change in the kinds of problems we're being presented with. Some of the staff who have been in the child welfare system for 25 years or more are saying they're beginning to see cases present themselves that they have not seen in at least a generation. They are reporting that families and children in some communities are going hungry. Families are increasingly reporting that they can't provide the necessities of life. We have had specific cases of families approaching the children's aid to take their children solely because they cannot support them financially. We're also beginning to see organizations like food banks come to the children's aid to help feed a family when the food bank's run out of resources and the welfare cheque's been spent.

All of these kinds of pressures translate into service demands and direct increased costs to children's aids, which sometimes even have to hand over additional money for clothing and food and sometimes the rent, because it's cheaper than bringing a child into care.

I'm not going to go on. We've talked to the government in many forums about the impact of cuts on CAS services. I'd like to turn at this point to our message, because we recognize that there are difficulties all around. The government has a mandate and we have to find some solutions here. We would like to state as clearly as possible that more across-the-board cuts to children's services that service high-risk kids will be devastating. We'd also like to say, though, that we recognize that major reform and redesign of our public services is necessary despite these pressures.

Restructuring of human services in the province we believe is essential to protect the health and wellbeing of all Ontarians and to meet the financial challenges the province faces, but we feel we require a vision that recognizes the need for individual families and communities to receive their public services in an integrated way and to be able to contribute to community life in a holistic manner. We urge the government not to tinker with public services but rather to engage in major reform.

Fundamental structural change is needed to ensure a healthy social environment for our kids. Children's services are funded and provided by several ministries of this government: Health, Education, Community and Social Services. Each of these ministries is making decisions today based on its own priorities, its own business plan and its own decisions for the system for which those ministries are responsible. While this makes sense for

individual ministries and programs, it doesn't make sense from an overall government perspective, given the challenges that we face. I think at its worst we can describe a silo approach to restructuring as a situation that constitutes mismanagement of our scarce and vital resources. So we're asking for the creation of a comprehensive evolution, if you will, of restructuring which will enable integrated planning and coordinating of services in our communities for children and high-risk families.

Children's services are part of a spectrum of community health, education and social service programs, and we cannot plan for child welfare, for children's mental health, for young offenders, for the education of our kids in isolation. These services can't be planned for in isolation of one another. The historic reason for structurally linking children's services with social assistance programs has now disappeared; that is the Canada assistance plan. It's time to create provincial structures which will support effective service networks and sound planning.

We believe that devolving government funding to local authorities will strengthen community involvement—that's what the orange paper is about in the back of your package—and that communities need to be responsible for meeting their respective needs. The right vision, the right public policy and a wise investment of public dollars will strengthen families, individuals and communities.

During these early years of restructuring, which can best be described as the transition years, your transfer payment partners, including children's aid societies, require some support. We need clear definition of government-funded core services for children; we need to define government priorities for public spending for children; we need to provide agencies with time to plan and restructure at the community level; we need to remove disincentives for finding savings; we need to provide opportunities for communities to reinvest some of those savings; and we need to create opportunities to pool resources to strengthen our prevention programming.

Specifically for your child protection services in the province, we've requested a number of things over the years, but especially the rationalization of the multiple regulatory mechanisms affecting this system and the promotion of a self-regulatory accreditation model of accountability, and we'd like to see the promotion of the development of a rational funding formula because mandatory child protection services are funded in one of the most irrational manners that I've ever seen in the history of the province.

I'll end there and let you ask some questions.

1420

Mr Mike Colle (Oakwood): I guess the last time I saw you, Mary, you were working for Covenant House and I think you were the director.

Ms McConville: Right.

Mr Colle: Welcome. One point you seem to be making is that it's better to look at the long-range implications of what you're doing, that there's going to be an effect felt in your area if you're not looking at the consequences. I guess one example I've been finding is that there are parents with disabled children, for instance, who got that 22% cut, the social assistance. Some of these parents were first to lose their jobs because they had to

basically give their children total care all day long. The cut was made and was just supposed to be to the mother because she's able-bodied, supposedly, but in effect what they've done is they've cut the child too because the mother was the sole caregiver in this case.

The point I'm trying to make is that if that mother or father is allowed to stay at home and be the caregiver, it's much cheaper to provide that care in the home. Once that mother or father is unable to provide that care and they're institutionalized, the government costs are going to skyrocket. I guess that's what you're telling us, that there are costs down the road if government doesn't have the foresight to look at the consequences, as we can see in Wisconsin. I think the number of children going into foster care has gone up by 60% because of the cuts to social assistance.

Ms McConville: Your social policy and your economic policy have to be integrated and there has to be a look at the impacts, or these are the kinds of difficulties you're going to inherit. You're going to hurt people and, from an economic perspective, the solutions may not be solutions at all.

Another example of that: In the state of Wisconsin they require that a mother who's receiving social assistance go out to work when the child is just six weeks of age. They have found a dramatic increase in admissions to care of very young children as a result. These are the kinds of issues that have to be very carefully thought through.

They've had tremendous success in other ways in terms of working people, getting people back into the workforce with training and appropriate child care. But there have been some very negative impacts of the policy that they're now trying to reassess.

Mr Colle: You're finding the real warning you have is the impact on children and the fact that there will be other requirements, whether it be on the health system or the educational system, that when you do make those cuts you have to perhaps look at the family or the family unit that you're affecting. You're not just affecting that parent who should be out working; you're also affecting—

Ms McConville: You are affecting the whole family, and especially children.

Mr Colle: The other thing is, in terms of the impact of the cuts so far on your ability to provide for these services, what's the most acute area that has been felt by the children's aid services across Ontario? Where is it most acute?

Ms McConville: It's acute right across the service. We're really struggling to maintain services to support families that have reached a critical stage. There's no point in investigating child abuse and neglect if you can't follow through with some supports to strengthen the family. You've got two choices: You strengthen the family or you remove the kids. Those are your two choices. It takes services and supports to strengthen these families once they reach that stage where they're knocking on the door or they've been referred to a children's aid society. So we're trying to sustain front-end supports and keep our communities on board with us, because we need a range of services. That's becoming increasingly difficult.

We're also struggling, once you get into the system, once children come into the system, with maintaining our appropriate support to our foster care system. We are starting to see an erosion of services there as well. Our foster parents in this province take care of enormously difficult kids and they need proper supports in order to do that. If we don't provide them with proper supports, the placements break down, the kids end up escalating in terms of behaviour and end up in children's mental health centres and group homes, all of which cost a heck of a lot more money, and also the bouncing around is damaging to children.

Mr Martin: Ms McConville, I think you paint a very clear picture of the challenges that you face in trying to carry out your mandate from government to protect children and to work with families to that end. I appreciate your support as well for the government's attempt to reform the system. Certainly, I don't think there are any of us around the table who don't realize, particularly if we're at all rooted in the communities from which we come, the need to fundamentally change in significant ways the ways that we deliver programs and create better efficiencies, as well as effectiveness within that.

Given that, and given that that's a very important goal, what would you have to say to the government re the other pieces of their program, the more important aspects of that as I see it: the speed at which they're moving and the most obvious target of the first decisions re the very poor, the 22% out of the pay packet of families that are at the bottom end of the income scale and the depth of the cut, 22%? I was shocked in July when I heard that figure. I anticipated that there was going to be some cut, but not that dramatic.

What would you say to the government as well re the question of the tax break at this particular point in time, given the very laudable goal of trying to reform the system so that it works better?

Ms McConville: That's a lot of questions. I think it's fair to say that the cuts to date—not in all instances but in some instances; it depends on the nature of the cut—have hit the most vulnerable members of our society the hardest, and it's particularly tragic to see the impact of that on children. If anybody believes that children are not being hurt, they are kidding themselves, because we know for a fact that they are.

I'm not going to get into arguments about the economic theories and debate whether or not a tax cut will work in terms of generating the economy; that's for somebody else to debate, but I will say this: It would appear, given the depth of the province's problem financially, that the only way to find your way towards the kind of tax cut that's being proposed is to cut further, to reduce government expenditures considerably more than we had originally thought the government might have intended. I have grave concern about the impact of that, again, if it's done over a very short period of time on the kinds of people we're serving in this province.

The other concern I have is the pace of change. I said in here that you're not looking at a public service system, at least not entirely—perhaps some parts of it are not willing to change and try to look at a more efficient way of getting business done, but I think largely the public

sector is, especially on the transfer payment side. But you have to give people time to do this, especially in social services, because you're not dealing with large institutions like hospitals, colleges, boards of education; you're largely dealing with hundreds of very small organizations that in fact have very little ability to manoeuvre financially, so it will be quite complex restructuring this system.

It needs to happen, but people need time to plan to do it right. Otherwise, we're going to erode our services and it will be very hard to sustain the level of service that I think this government wants, as well as the rest of the province.

1430

Mr Carr: Thank you very much for a very thorough presentation. I was particularly pleased with the comprehensive orange one. It really looked at the restructuring.

I know what your organizations have had to go through. I'm from Halton and we've met many times with some of the major concerns out there. I don't want to put you on the spot, but one of my concerns rests with the ministry. They're the ones who are going to have to take the lead on this in terms of restructuring.

I know you have to work with them so you have to be a little bit diplomatic, but are you confident—you know it's going to be a difficult question—in the ministry's ability to do this restructuring? Do you think they have a clear sense of where they're going? I understand that puts you in a difficult position, which may not be fair.

Ms McConville: No, it doesn't.

Mr Carr: Could you comment on that? Do you think the ministry has the capabilities to do this restructuring?

Ms McConville: I am confident the ministry can do this restructuring, given certain conditions. The reason I put this orange document in the package was to be very clear that the Ministry of Community and Social Services cannot solve the problems of the world. Public services have to be restructured in an integrated way.

Our ministry can do a certain amount of this complicated work by taking a look at the specialized children's service system, for example—that's what we're doing now—and focusing on a piece of restructuring, say over the next 18 months to two years. They're also looking at child care, and social assistance of course is a major program that needs to be rethought.

What concerns me is not the Ministry of Community and Social Services but the government at large. There has to be a broader vision of restructuring at the cabinet level if you truly want to safeguard effective public services and reduce your expenditures. You are spending billions and billions of dollars on health care and education and social services, much of that duplicative spending, and virtually no integrated planning at any community level.

It doesn't take a rocket scientist to figure out that there are probably better ways to spend your money and more effective ways to deliver your service if you begin to think of a more integrated planning approach and enabling communities that can get their arms around something doable to plan across the spectrum of services. There's no capacity in this province to do that, and as long as you've got the silos and the envelopes that everybody protects and holds on to, we're going to continue to waste money

and I think ill serve people, because they're going to run up against service barriers continually.

It's the broader vision I'm concerned about, not the Ministry of Community and Social Services. I also think that if that broader vision isn't grasped by the government at large, our ministry and our services are going to be the services that really get lost, because they're viewed largely as soft services, they're easy to forget. It's easy to talk about volunteers and the community should do more, but when you take a look at the kinds of services you're talking about, services for the developmentally handicapped, children who are extremely disturbed, children who are unsafe in their own homes etc, there's a limit to what the community can do here. These services have to be owned by the community, owned by the government and redesigned so that they're better supported by the broader public service system. We're a long way from that in Ontario.

The Chair: I thank the Ontario Association of Children's Aid Societies for its presentation. It's a very sensitive area. We appreciate your time, Mary.

Ms McConville: Good luck with your budget.

ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION

The Chair: We have with us now the Ontario Public School Boards' Association. Mrs Cansfield, welcome to the committee. I ask you to identify yourself and your associates for Hansard.

Ms Donna Cansfield: My name is Donna Cansfield. I'm president of the Ontario Public School Boards' Association. Gary Schleuter is a trustee from the Waterloo public school board and Mike Benson is the executive director of the association.

I'd like to say thank you for permitting us to have the opportunity to come and speak with you. We are going to try and give you our message succinctly so that you'll have an opportunity to ask us questions.

First of all, very quickly, who we are and what we represent: As a public school board association, we represent public school boards and they represent 1.3 million children and youth and over 500,000 adults in this province. We are here to recognize some of the difficulties the government is facing and to raise some very serious issues from our perspective dealing with education finance, both current and future.

I would like to say that we recognize there is a very serious deficit problem in this province and we also recognize our responsibility as elected representatives to deal with the current and the future debt load of this province. From our perspective, obviously if you're going to educate children, it makes some sense to give them a future in which to use that education.

We would also like to bring to your attention that the comments we're going to raise are really not new comments. We brought these positions forward early in 1993. For those of you who do not know, the school board associations and their member boards have been going through restructuring for some time now. First of all, we had expenditure controls, and then of course we had a social contract. So we have put forward issues around

deregulation, as I said, as early as January 1993, so nothing you're going to hear is new; it's all recycled.

One of the things we want to emphasize is that everything we put forward is to try to minimize the impact on the students in the classroom, but also we recognize that this is a serious difficulty and that in fact we may not be able to do that.

We value not only our students, we value our employees. They are as important to us. The teacher in the classroom is a critical part of what we do in our business, as is the bus driver who takes the child to the school and the maintenance person who keeps a safe and clean environment for our youngsters.

One of the most important things we need are the issues around the fiscal tools. In November 1995, Minister Eves was very direct when he indicated that \$400 million would be extracted from the education system. We accepted that. We understand the debt load and that it has to be dealt with. We also recognize that to deal with this in a province the size of western Europe, with school boards that are as small as the isolate boards in the north that have very few children, to the very large boards in Metropolitan Toronto, you need flexibility and a very broad range of tools in order to provide to meet the phasing in of those cuts.

That also brings the issue of the phasing in. Timing is critical for us. All along, we've indicated that we need time to be thoughtful and careful in how this process is to be done. Again, we want to minimize the impact on the classroom and minimize the impact on the teachers and the students, and obviously as well on the ratepayer. This is critical to know, that to keep some of the programs—places in the north, for example, do not have unified arts to cut, they don't exist, so when you start cutting programs, you're cutting core programs. That's the last thing we want to do, so we need some time to phase in some of these cuts.

The other is we need that broad range of tools. How many times have I been here to say no one solution will do for a province this size with the different kinds of complexities. You must recognize that from each of your own jurisdictions. You have to provide a broad range of tools, that the boards can sit down and work out to meet their particular needs.

1440

I could give you example upon example where if you use this in Etobicoke, it doesn't work in Shining Tree. If you use this in downtown Metropolitan Toronto, it doesn't work in Waterloo. There are examples throughout the province and that's why it's critical to have this broad range.

I'm going to actually read these into Hansard so that they are there.

The Ontario Public School Boards' Association does not support a grant reduction timetable which will decrease funding to public education by \$1 billion during one school year. We recognize the issue of working with the government in the government's fiscal year. If the government moves on reductions of that magnitude, school boards will require a phased-in approach to allow for an appropriate restructuring and to minimize the

impact on students, programs, employees and the local taxpayer.

Secondly, the association states that school boards need an appropriately broad range of strategies or tools which will totally offset any provincial grant reductions and which will not result, and I underline will not result, in increased property taxes.

I'll ask Gary to carry on with the second part.

Mr Gary Schleuter: I'm going to refer to the document you have in front of you and I'd like you to turn to page 5 if you will, if you'd like to follow along. I'm not going to read it; I'm just going to highlight a few of the areas, and I'd like to read into Hansard the recommendations and some of the rationalization I have for them.

Beginning with education finance reform: Education finance reform is more essential now than ever before. The main objective of educational finance reform must be quality education for all students by distributing funds to better reflect the needs of Ontario's students, and to promote cost-effective practices within the education system.

We need a new model for education finance reform, which should have the major components, the very least of which should be an ABC, which is an activity based accounting approach.

OPSBA must emphasize the need for the cost-out of the components of education and define the levels of service.

OPSBA recommends that the Ministry of Education and Training education finance working group be given enough time to fully review the comprehensive package of reforms, including the costing framework, new distribution formula, new grant structure, revenue issues and impact analysis on key recommendations.

I must emphasize that impact analysis is absolutely imperative. We must know what's going to happen if we do whatever it may be that is coming down to us in the next couple of weeks.

OPSBA recommends that in future years there be a permanent joint school board-ministry committee for the analysis and assessment of education delivery costs, provincial and local; recommendations regarding levels of services and projected funding levels required; yearly update of the grant distribution formula; financial impact analysis of new programs and policies on the provincial and local tax bases. We would like to know, specifically, what it does to our local constituents.

OPSBA recommends that the Ministry of Education and Training allocate adequate ministry resources to maintain and update yearly the school board expenditure data.

I'm now looking at page 6. I'm talking about school board fiscal year. As a professional accountant, it is my opinion that it is high time that school boards in Ontario had a fiscal accounting process that equates to the school year. It would give us a better control of cash flow, budget expenditures, and of course it would allow us to have a much better control on site based managements.

We need a new distribution formula. OPSBA recommends that a new distribution formula, based on student equity, be developed. The factor should be based on

factors such as demographics, socioeconomics etc., as shown on page 6.

OPSBA represents two thirds of the children of this province. We are participants in the Ministry of Education working group. We have stated since day one that we cannot decide on a position that is published until we see the impact analysis, and I'm going to emphasize that again. We must know that and we must know the rationalization before we can give an opinion.

OPSBA believes that rather than revenue-sharing and its associated constitutional implications, a significant degree of funding equity can be achieved through a new grant model with a distribution formula that is more responsive to students.

OPSBA supports a new, more responsive, education grant distribution formula as the first and foremost step to achieving student equity.

Currently, school boards provide a variety of social support programs and services, such as speech and language support, psychological services and all of those items that we commonly think of as special education. They are very expensive, extremely expensive.

OPSBA strongly recommends that in the future health and social supports for students should not be financed from the base per-pupil grant. Rather, there should be a separate program grant under the Ministry of Health and the Ministry of Community and Social Services.

Dealing with revenues for education, we need to analyse the impacts of the GTA report and the Sweeney report. We support and we agree with those reports, but we need to see what the impact is before we can give you a further opinion on that.

We state that OPSBA does not support provincial pooling of the residential and/or the commercial and industrial tax base. We'd be very willing to enter into a discussion with you on the reasons for it.

Turning to technology, educators must equip students with the skills necessary for literacy in this information technology. The Minister of Education himself has stated that he supports computerization.

It is our opinion that we must free up time for teachers to teach students. Presently, our staff are using archaic administrative systems. Computer systems which integrate teaching and student needs are imperative, and a very high priority for OPSBA.

OPSBA recommends that the provincial government in the 1996-97 budget increase financial support to school boards, capital and operating support, for information technology equipment.

Ms Cansfield: The last area we'd like to speak about very quickly is around the issue of capital, and for those who live in areas where there are old schools, I don't need to emphasize how difficult it is when you start looking at the issues around renovating schools, especially because of the issue around regulations.

I'll give you an example: Try putting in an elevator in an old school, especially if it's 50 years plus. Suddenly you're into \$300,000, \$400,000 because, as you touch that old building, guess what? You have to bring it up to building code, and this is an area we need to deal with quickly, because it's an issue around deregulation. We

have more red tape that hampers us in terms of trying to get our job done in an efficient and effective way, and again this is nothing new. We've brought this forward many times. So the capital area has been neglected, and I do understand that the ministry is trying to address this.

For us, it's a critical issue as well that never should there again be built a school across the street from another school. Multi-use joint facilities must be the order of the day in the future. It makes absolutely no sense to spend that kind of money when there should be a willing and cooperative venture between both public, separate, French public and French separate boards. As you know, our position has always been there should be one publicly funded system anyways.

I again would like to read, though, into the record, because we have concerns around the financial support and the lack of it for the capital budget that we need to meet, first of all, that we recommend that we have increased financial support for those areas for school capital to meet the pressures of growth, and that we also recommend increased financial support from the school facilities renewal program, which are current dollars that are already there and have been allocated. They simply have been frozen.

Finally, we do recommend that the provincial government streamline legislation and regulations to encourage multi-use facilities between school boards, municipalities and other community agencies.

It has always been, again, the position of this association that there's an opportunity to bring in the municipalities. I give you good examples, and they're called libraries. Again, why can't we work together in a cooperative fashion rather than having multi facilities all over the place as opposed to working with one another?

We'd be pleased to answer any questions.

1450

Mr Martin: Thanks for coming today and for making such a good presentation. It's always informative and educational when I get a chance to hear of your concerns and your recommendations to government.

I don't think anybody would dispute that in a province such as ours that has so much to offer, and that all of us are so quick to praise when we're out of the province and to talk about in a positive light, that we want to do everything we possibly can to keep it that way.

As a matter of fact, in reading some of the information that I've read in preparing for today and other committee opportunities that I've had over the last couple of months, and indeed over the last five or six years, Ontario, in spite of the challenges that we all face and the need for us to be responsible and responsive in front of the challenges that coming to the end of a century present and the changing economy that we're facing, we all need to be doing different and progressive things; that we still have a system that's good, that is producing a product by way of students who participate very actively in the economic life of this country and of the world, and that Ontario is still seen by many as a good place to invest.

I would suggest it's seen that way because of the very excellent education system that we have in place at all levels, the very excellent health care system that we have in place to make sure that all of our people are well and

looked after and healthy, and a myriad of other social assistance programs to look after people.

We compete—and I made this mention this morning when we had, if I dare say, a rogue's gallery of bankers in front of us all morning making some very valid arguments for a market-driven approach to the way that we change, the way that we do business in Ontario and the way that we look after people and strengthen communities. We compete with countries in the world today who see as their competitive advantage child labour, no health and safety regulations, very, very low pay for workers, and the list goes on and on.

I would think we'd want to protect for ourselves that which we see as valuable and that which makes Ontario a good place to live and to work and to play in. Certainly, when I look at education and I see the challenges that it has faced and the way that it has responded, you know as I know that whenever anything happens in the community, the first place it ends up at is the door of the school. So teachers are challenged to be all things to all people; school personnel are challenged to be all things to all people.

And as we see the changes that are being made, not only to education but to a lot of the support services that you in education count on to help you in dealing with some of the socioeconomic, some of the health issues that you confront every day as children with different disabilities arrive at school, and recognize that ultimately at the end of the day somebody has to deal with that and, in many instances, particularly in smaller communities, the school is the only source of expertise, and people with training.

Given all of that and given your concern—

The Chair: Thank you very much, Mr Martin. Do you have a question? You have expired your four minutes with your presentation.

Mr Martin: Could I ask a question?

The Chair: Well, you have expired your four minutes, sir. I think we should really move on.

Mr Martin: Just a quick question. In light of that tremendous challenge, and the time lines, what recommendation would you give the government re the question of the tax break?

Ms Cansfield: The association does not have an official position on the tax break, but I will very quickly give you a position on something in addition.

First of all, you make a darn good argument for locally elected school boards, because we are good at what we do, and we have proven that over the kinds of things that we have done. But the other is that I think it's time for us to look at managing the changes within infrastructure in order to protect that classroom and the student. The time has come to do that and I believe, working together, that we all can do it. Listening to the presentation before and the frustration around the issue of regulation and infrastructure that limits and prohibits the ability to do the work you need to do is what we need to get at.

I think it's a challenge. You have to understand the challenge, but I also believe you have to meet the challenge, because at the end of the day are the children and the youth of this province, and they're our ultimate responsibility. It's not going to be easy and nobody likes

the cutbacks, but it is necessary to work this out. I believe people of good faith can do that if we really believe in the kids.

Mr Spina: Thank you for good, comprehensive recommendations. There are very clear-cut recommendations in your submission. There's been a lot of public criticism of the trustee system, I guess, the taxation system that takes place and you, as representatives, or all trustees across the province, really are facing a tough row to hoe, as they say, acknowledging the reduction that we are facing. There are two elements, I guess, that I would like to ask you greater or expanded opinion on.

First of all, as a member of the Red-Tape Review Commission, you mentioned some of the points that you were facing with regard to red tape. I'd be interested in hearing a couple of those items that you feel could be addressed by that commission. I'd be happy to take this, by the way, to that commission, or if you want to give the commission another submission, then that would be as welcome by the chair.

The second element is, I guess, the flexibility that the school boards perhaps would like to have. There is a phenomenal amount of rumour about the famous toolkit that the minister has been distributing. The interesting fact is that all the teachers' unions seem to have it and have already done their own interpretation on it, and yet it has not even been released to caucus for consultation because it's still being drafted. I would be interested in hearing what tools you feel would be good for the school boards to have in order to be able to accomplish the government's objectives and still keep the quality of education where we all would like to have it.

Ms Cansfield: Very quickly, I would be delighted to send you 28 recommendations on deregulation which we had previously sent, and I'll give you a good example of one. Currently, the Education Act prohibits school boards from entering into relationships with municipalities. So when a school board suggests that it might do joint tendering with its municipality, if the municipality says no, guess what? It's no. The same could be said with other school boards. For example, with the public and the separate boards, one would think they would work together. In many instances they do, but because the law says they don't have to, it's conveniently used as an excuse not to. There are significant dollars to be saved. There are neither public buses nor Catholic buses. There are yellow buses that take children to and from school, and all children should be able to ride the one bus. Those are examples.

Very quickly I'll give you some mandated—and we say mandated cooperative ventures between public and separate boards because we know of the extraordinary reluctance on behalf of some of the boards to participate. There are significant savings that are to be met. Never again, as we indicated, one single facility when a multi or joint-use facility—the fact that there have been buildings that have been built for 100 students that cost \$7 million is outrageous and the school down the street is half empty. That should not occur, and never should have occurred.

We need to look at the areas of technology. Although it originally costs a little, it will save a lot in the long

term in terms of distant learning, professional development, working with teachers. You know, our teachers don't have a telephone in their classroom, much less computers. Think, if you want to talk in a telecommunication-information age, we don't have those types—think of the time that could be saved just by installing a telephone in everybody's classroom. There are a variety of ways.

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We have a book called *Removing the Barriers* which we put out. In it we also recognize we would like some flexibilities around retirement gratuities, around the issue of the school day and the school year, but they're not new. We knew those when we brought out the social contract. You can't cut an arm and a leg off a teacher in northern Ontario to 4.75 if there are two teachers. You need to work with some flexibility. It doesn't mean you have to do it everywhere. I'd be pleased to give you both of these. In addition, this is the other one; and it's managing, it's the actual legislative changes. We went through and came up with our recommendations and I'll forward them both to you. We have put forward a variety.

We've always said it needs at least a couple of years, the government's fiscal years, and then some of them—obviously, if you have a retirement gratuity, you honour that contract. You freeze and you phase out the new hiring, but of course you must honour existing. There are a variety of things that we know we could do if in fact we had some ability. You know, we can't even put a sign in our school buses that says "Sell milk," because if we do and we get money for it, they take it off our transportation grant. What an incentive. I could give you a list of them.

Mr Colle: I really don't know where to start, having been in the teaching profession myself for 18 years. I guess the first comment I have is that it's certainly critical that this government do something about the duplication, there's no doubt about it. I know in the middle of Metro we've had schools sitting beside each other, one with 100 students, one across the street filled to the gunnels, and then they would go build another school somewhere else. Then in the high school system empty schools have to be basically underutilized while you have to go spend taxpayers' dollars building new schools on dump sites; I can give you some cases. I hope they do something about that. I think that's where a true saving is, and it will have to be a strong government that takes the leadership to do that, to ensure there is sharing of resources.

You didn't mention user fees, seeing that this government is very much enamoured of user fees. They're obviously going to be moving in that direction in education. There have been some hints of user fees for everything from junior kindergarten to heritage language classes, other so-called non-essential educational services. What is your association's position on user fees in education?

Ms Cansfield: Our position on user fees is a bit of both. I've never heard of anything that really raised red flags, except something around collective agreements, as

much as user fees. I suspect a little common sense actually in the school board's decision would—I'll give you an example: If there is a child care centre down the road that has to transport children to a local school, currently school boards do not do that because of the cost. But doesn't it make some sense that if they were enabled, through a small user fee, to allow the parents to pay for that transportation from child care to school, it would help the parent, it would help the child and it could minimize the cost of what that transportation would be? There's an example.

If it came down to music or heritage language, many schools would like the opportunity to allow the community to pay a couple of dollars a week in order to have heritage language classes on Saturday if they could keep their music program. Again, I think you need some flexibility and you need to allow school boards to make those decisions based upon their community needs, which are as wide and broad as this province. So it's not cut and dried.

Think about the issue of books. I bet I could go to every home, including yours, and find a school book that you didn't return.

Mr Colle: There's a few hundred in my house.

Ms Cansfield: Absolutely. Think of the cost to the system. Now, if this were rampant in somebody's system, or they thought it was, allow them some opportunity to deal with it. It doesn't mean they charge for the books. They might in fact do what they do with adults now, and that is put on \$40, and if you return the books you get your money back. There are lots of ways that you can enable the school boards to be more effective. That's not permitted now.

Mr Colle: I think the critical thing is for flexibility in the school boards to make that decision, not the ministry.

Ms Cansfield: Absolutely. Flexibility is a key.

The Chair: Thank you very much to the association of public school boards for coming in and presenting to our committee.

Ms Cansfield: Thank you very much for this opportunity. We'd be delighted to forward the documents, as was requested.

The Chair: If you could forward them to the clerk, we'll see that they're distributed to the committee.

ASSOCIATION OF COLLEGES OF APPLIED ARTS AND TECHNOLOGY OF ONTARIO

The Chair: We now welcome the Association of Colleges of Applied Arts and Technology of Ontario to the standing committee on finance and economic affairs.

Dr Brian Desbiens: My name is Brian Desbiens. I am the president of Sir Sandford Fleming College and the vice-chair of the Council of Presidents. I'm joined by Sheila Sim, the director of research and planning, and by Vicki Hodgkinson, the governor and president of services representative from our association. We thank you for this opportunity. If I might present then for about 15 minutes and then we'll take questions, Mr Chair, we have given you a package of speaking notes and I will follow those speaking notes, with your indulgence.

First of all, I'd like to say thank you for the opportunity, and second, the concerns we're going to present to you are not just those of the presidents or ACAATO, but really we have almost three quarters of a million individuals who receive instruction on a full-time and part-time basis in the colleges. We have about 17,000 staff, faculty support and administrators. On behalf of all of those, plus probably between 10,000 and 15,000 volunteers who serve on our advisory committees and boards, I bring these concerns to you.

First of all, we do recognize government concerns around budget, both the provincial and the federal governments. We do recognize the fact that we as colleges have to be part of the solution. We recognize that in 1996-97 we will be reduced in our funding and we want to, in the presentation today, share with you our concerns about the financial and fiscal situation that we're in. But we also want to be part of the solution because we believe that both our provincial and our federal governments, which affect our colleges in Ontario, are committed to restoring prosperity to our province and we think the colleges can be part of that solution.

The colleges continue to take a strong leadership role in building a competitive Ontario and I want to share with you some of the reasons why we believe that to be true.

First of all, Ontario colleges have striven to maintain accessibility. As you note there, we believe we have done that. Between 1986 and 1994, the colleges actually grew by 39% in our post-secondary area at the same time as our operating grants were reduced by 33%. So reductions are not new to us, nor is growth and demand new to us.

We believe that the colleges are extraordinarily cost-efficient. The colleges actually receive 30% less per student than our comparative counterparts: elementary, secondary and universities. You can see the statistics in the report.

We also have experienced a substantial reduction in the funding units that we get per client. This is not just in comparison to education; it's also in comparison to the other public sectors, such as health and the Ontario public service. So reductions have been part of the world that we have lived in. That's in the past. Our experience, of course, in facing 1996-97, is that we want to bring to the attention of the committee the fact that the colleges are not only experiencing a significant reduction because of the provincial cutbacks of \$120 million; we are getting a double whammy that other sectors are not getting. The colleges this year will experience a \$55.5-million reduction by the federal government in the apprenticeship area and in areas such as training or the academic upgrading areas of the colleges.

Thirdly, we are also anticipating the announcements around the Ontario Training and Adjustment Board, and signals have been sent to us that this represents about a 20%, or \$80-million, reduction. So you can see that it isn't just the grant reduction that we're having to experience. When one totals it, it represents \$255.5 million or, in other words, double really what the province announced last November. This is what we're trying to cope with, and it's a double hit. We don't believe that other

jurisdictions are experiencing the hit to the degree that we are and we want to bring that to your attention.

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We have been given a tool to deal with only a small portion of it, and that's through the tuition. The colleges were able to raise tuition this year by 15%; that's 15% on around \$1,000, or \$150 a student. That 15% only represents about \$34 million of our problem of over \$200 million, or less than 15%. Our fellow post-secondary educational system, the universities, has been given the ability to raise tuition 20% on approximately \$2,500 tuition per student, a larger base, or about \$500 a student, which allows it to recapture about 40% to 50% of the gap. So the gap for the colleges is considerably greater, and we wish to share that with you because we believe that trying to treat both systems in a similar manner is not equitable.

Ontario colleges are also committed to change. We this year have drafted, through the leadership of our academic leaders, a paper, Learning-Centred Education in Ontario's Colleges. Learning is what the colleges have always been about, but being learning-centred and taking a look at how that will refocus the way we go about doing education we think is a critical thing at this juncture in our history. What it does is help us redesign or rethink the kind of learning and the learning outcomes that are necessary. This is a major thrust in the colleges. It's a thrust to take a look at how we use our space, how we use our resources and how we use our staff, and trying to redefine and look at learning outcomes.

Part of this initiative, of course, comes from the need for accountability in the colleges as well, to ensure that those who come to the colleges actually exit the colleges with the right kinds of skills and knowledge. We are an accountable system and we have many mechanisms in place. We have community boards that provide direction to our colleges. We have employer-driven advisory committees. Over 10,000 people serve on our advisory committees—alumni and employers—to help us adjust our programs. We have annual reports and we also have operational reviews, and some colleges have initiated new quality approaches and assessment approaches.

In your package you'll see a document on accountability. We want to develop our own accountability mechanisms for our college system to try to develop the right kind of performance indicators that you as the government, the public in general and we as educators would be interested in, to determine that we are on the right track and measuring our outcomes effectively.

We also believe that the colleges have been a major force in economic development and renewal in the province. We have, during the 1980s, been very effective in assisting the private sector in retraining its workforce. As we know, they went through it before government. We believe that the colleges can also be an effective force in the 1990s, assisting government and the public sector in retraining and assisting people to get the skills that are required in order to again contribute to our society.

Colleges have been entrepreneurial. Many colleges have individual relationships with universities and the private sector. Colleges together have developed what is

called Con-nect. Con-nect is a mechanism for the colleges to go, as a system, to the private sector, to governments, as well as provincially, nationally and internationally, to address what services we can bring.

College also graduate graduates who get jobs. Even in the middle of the recession, 78% of our students in 1992-93, were employed six months after leaving our college. There is no mistake taken when we see twice as many university graduates now coming to the colleges as there were in the 1980s, coming to us because they know that the employability skills that they get from our applied programs make a difference.

Statistics Canada just reported in the last quarter that 70% of the new jobs out there require a post-secondary education. Also, Statistics Canada indicates that post-secondary-educated graduates from colleges and universities have less unemployment during their lifetime and have significantly greater income capability. So the investment in post-secondary education is a worthwhile one.

Education and colleges are supported in Ontario by the public that you're here to serve and we're here to serve. Let me just share a couple of statistics. First of all, the demand for the colleges is greater than it's ever been. Seventy-three per cent of the people in Ontario indicated that they actively participated between 1980 and 1990. The third area here: There's a myth out in Ontario that universities are the first choice. This is true in terms of status; however, it's not true in terms of the way students are voting with their feet. One hundred and ten thousand students applied in 1994 to the colleges as compared to 57,000 to universities: a 2-to-1 ratio. Of registrants, 56,000 registered in the colleges and 38,000 in universities: 1.5 to 1. The citizens of Ontario are using the college system, to their benefit. Our enrolments have continued to go up, not go down; this winter almost an 18% increase in applications to our college system. Forty per cent of Ontarians say that they have actually taken courses, and we know that in the Ekos Research—there's a graph attached—73% of people in Ontario say that they're going to participate in post-secondary education in the next five years; 58% of those said that they want to go to colleges.

We're popular, and there's support. Sixty per cent of citizens say that they would be willing to pay more to ensure that education and training are available. In that same Ekos study, education, health care and debt and deficit were rated the highest—tied. So the citizens support it.

What are the issues we have to face? Obviously this demand, this tremendous demand that we're facing for post-secondary education, particularly at colleges. There's an issue coming before us that I want to alert you to. With the changes in secondary school reform, from five years to four years, in the year 2000-01 we're going to have a double cohort. That means those 110,000 applications might double to 200,000, and those numbers who want to register at colleges could go from 57,000 to 114,000. We need to prepare now and invest now so that we can be able to serve those citizens and those students when they move from the secondary panel. We're very concerned about that and we need to prepare now for it.

Downsizing of government is substantial. We expect tens of thousands of people to be dislocated in the next year or two. The colleges can provide assistance, as I said, similar to what we did in the 1980s for the private sector.

The colleges in Ontario are exiting the social contract, and this is of grave concern to us because as we return to normal collective bargaining under the same terms and conditions with no additional tools, the reality is that these are going to be very difficult times, because the educational framework we're in because of the economic times we're in has changed, and therefore the structures that we have will also have to change. We expect this to be a very difficult year as collective bargaining continues.

Colleges are trying to do a quality and career-relevant education and are being asked to do that. However, the reductions make it very difficult for us. As we face a 20% to 30% reduction due to the double hit from the federal and provincial governments, we have to look at things like laying staff off, campus closures and reductions of programs. These are not things that we take lightly. They are things, however, that the colleges are prepared to do.

However, we are concerned about access to our system. One of the ways to be able to assist us is through investments in information technology, and we'd ask the government and you to consider this. We have had our capital cut, not just for our buildings but for our equipment. These advanced-technology institutions need the latest technology. We'd ask for you to give us opportunities to make sure that the learning experiences for our students are there. Also, information technology can be extraordinarily helpful to us to address the question of access in our communities which are threatened at this time.

In conclusion, the message that I wish to convey to you is that you have a college system in Ontario that's cost-efficient, in demand, publicly supported, responsive, accountable, and prepared to assist in solving the problems of the day. We need you to look at us and treat the college system in an equitable manner—rather than in the same manner, in an equitable manner. Look at the full impact of federal and provincial financial reductions on the college system and give us the tools to be able to assist you in serving the citizens of Ontario.

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Mrs Margaret Marland (Mississauga South): Thank you very much for your excellent presentation. As a former board member at Sheridan College, I understand the passion with which you speak and the sincerity of what it is you're saying.

I guess the story that I want to relate to you—because I was taken aback by this experience and surprised and tremendously impressed. Very recently I ran into a staff member of the Credit Valley School of Nursing, which as you know very well is the nursing school for Sheridan College. It was about two weeks after Sheridan College had decided, because of the cutbacks, they had to cancel the school of nursing.

This staff person is losing her job. She is an instructor in that program. She will lose her job when the program is complete at the end of the summer. We talked about

the fact that the students are being protected. The current year of students are either graduating, or if they're in their second year, they're going to be accommodated over the summer for their third year, and as you know, the first-year students are being transferred into equivalent programs.

But what amazed me about this staff person—and the reason I'm putting this story on the record is because I feel this woman epitomizes the kind of staff that we have in the college system and it's one of the reasons that our college system has been so successful all these years in the province. This woman said, "You know, we have two mortgages and we have our own children," but she said, "I want you to know, Mrs Marland, that although I personally and my family are directly being hit by the cutbacks, because I am now losing my job," in a program that had to be cancelled, "my family is 100% behind what it is you're doing and we understand why it has to be done."

I thought this showed a very real person in a situation who understands, in spite of the impact on her personally.

Interjection.

Mrs Marland: I think it's unfortunate that someone with the seniority of my friend and colleague Mr Wildman would have the little dramatics that he's just having while I'm telling a very sincere story, and it is a sincere story. I think that, as I said, is why our college system is in such demand by students around this province.

Your presentation to us today will certainly be a very serious part of our deliberations and the deliberations of the Minister of Finance while we continue to make these difficult decisions.

Ms Castrilli: Thank you very much for appearing today on what I think is one of the critical issues facing Ontario. Ontario's colleges have in fact been hit and the students have been hit in ways that other sectors have not. I think you'll agree with me that the average age of college students is something in the order of 27, the last statistics I saw. That means that it's an older population, which in order to go to school has to finance through employment or through sometimes social assistance and needs help with respect to day care and housing and so forth, all areas which are being cut. So it's really a hardship of a higher magnitude than other areas. I wondered if you might comment on that.

Dr Desbiens: It's very true that we have a large percentage of mature students who attend the colleges, as I mentioned, many of them who have already been dislocated from work or want to return to work and need the assistance. There is a dramatic increase in students on OSAP. There's a dramatic increase in the debt load that students are incurring, and colleges are having to develop methods to be able to provide assistance. Many of the support structures are threatened—day care and other support—so it is becoming much more difficult for our students.

We're also concerned that some of the programs that are support structures, such as our academic upgrading programs that have helped people get the skills to then be able to succeed, are also being eroded. So these are very difficult times for the students in the colleges.

Ms Castrilli: What do people do? On the one hand, they're being encouraged to train, to upgrade, if they're displaced to train in brand-new fields. On the other hand, the very programs which should be helping them may not be there for them to access. What's the result?

Dr Desbiens: The result in some cases is that people aren't able to go to college, aren't able to get the skills that are required. The colleges have continued to stretch themselves. You've noticed that there continues to be an increase in enrolment. I always find it remarkable that the colleges continue to try to do these things. We will continue to do that. However, there are individuals who are now not able, who are caught in the catch-22, without the support to be able to go; if they go, then they incur increased debt. I'm afraid that is going to significantly increase.

There's the opposite of that coin too, if I might, and that's that with the reduction in the public service jobs, the layoffs in the public sector, many of our graduates or students are trying to prepare themselves for the public sector. So we have a crisis coming also in terms of the graduates from our colleges having to compete. We have the double cohort problem of getting in, we have the dislocation of support structures and we have a job market that's going to be very difficult.

We want to work with all of you to try to address these problems but they are getting more severe each year.

Ms Castrilli: So just at the time when you're most needed, you're not accessible?

Dr Desbiens: We're very concerned about it. That's why I mentioned we have to find new ways. Information technology can be one way that we can try to reach out, through technology. We have to sustain our ability in smaller communities. We've got to link ourselves together. The first speaker mentioned the rationalization of programs. That is part of it as well. We're trying to rationalize programs so that we can get centres of specialization. This does mean, however, that people will have to perhaps leave their communities. So there are a lot of adjustments the colleges are doing, but we are concerned about the expense and the ability to afford college for our citizens.

Mr Bud Wildman (Algonia): For the time constraints, I'll just make a comment and then ask a question. What strikes me is the contradiction between the government's stated agenda and what in fact the impact of the cuts is. There's a demand by the government, which I think most of us would support, for people to upgrade themselves and gain employment skills so that they can be productive and contribute to society and provide for themselves and for their families. At the same time, they're making cuts to the very program that would make it possible for people to do that.

You've talked about the increase in demand for training, the expansion of enrolment you've experienced. You've also said that colleges are prepared to change and to cut programs and staff, rationalize programs and so on. You've talked about the increases to tuition and you've expressed concern about access. You've said that you're prepared to do those things that are required. In fact,

you're already doing them. While I appreciate your presentation, it was good, it would have been helpful I think to the committee if you could have outlined what has happened, what are the cuts in programs, what has happened in terms of staffing and what you predict for the coming year and perhaps the year after in terms of enrolment and access. So I'll give you the opportunity to do that now.

1530

Dr Desbiens: Mr Wildman, we're in the middle of it; that is really where we are, so to give you a summary at this time would be very difficult. I'd be pleased to come back. I can tell you, though, that around the Council of Presidents' table—we do round tables—there is no question that there are going to be large-scale layoffs of staff that have been identified. At least eight to 10 colleges are reviewing campuses which are in communities—

Mr Wildman: And this will affect classroom education.

Dr Desbiens: It will affect the availability of post-secondary education in our communities. I can share with you that, as was indicated at Sheridan, almost every college is reviewing all of its programs and having to downsize the number of options that are available in our communities. These are direct effects not only of the provincial government—

Mr Wildman: No, I understand.

Dr Desbiens: About half of the gap the colleges are experiencing is because of federal reductions as well. We're getting a double whammy in the colleges right now, at the very time when in fact they're needed.

Mr Wildman: Could you predict—I know it it's difficult to predict—what you anticipate might be the effect on enrolment? I've quoted your colleague recently in estimates. She said it was about 5% to 7% down.

Dr Desbiens: Yes. We have 25 colleges in Ontario, and about five or six of those colleges will be growing, mainly because three of them are francophone colleges that are getting supplementary assistance to do so and a couple of the colleges have also been given assistance because they've been part of this realignment for the francophone colleges. So they do have plans to grow. The remaining colleges all are looking at 5% to 10% reductions in order to have the fit.

Mr Wildman: So despite the fact that you are anticipating an increased demand, an increased need for training, more people wishing and wanting to go, you anticipate a decline in enrolment?

Dr Desbiens: We anticipate a decline in enrolment because of having to cope with the reductions that we're receiving, yes.

Mr Wildman: That's, in essence, the exact contradiction I was referring to.

The Chair: Thank you very much for your presentation. We appreciate the Association of Colleges of Applied Arts and Technology for its presentation this afternoon.

I would like to inform the committee that we have submissions, although not presentations, from the Ontario Nurses' Association, from Harbour Management Services Ltd and from the Association of Canadian Distillers, which will be distributed to you by the clerk.

I would also be remiss if I didn't point out that it's Ms Marland's birthday today. Many happy returns.

Ms Lankin: Mr Chair, is it in order to sing Happy Birthday on Hansard?

The Chair: I suspect not.

Ms Lankin: Happy birthday, Margaret.

Mrs Marland: Thank you very much. I appreciate the extension of the greetings very much. I also appreciate the fact that you're not asking me which one.

Mr Colle: That won't be in Hansard.

Mrs Marland: Thanks.

POLICE ASSOCIATION OF ONTARIO

The Chair: It's now my pleasure to introduce the Police Association of Ontario. We have 30 minutes. We'd appreciate it if you would identify yourselves as you open your remarks. Welcome to the committee.

Mr John Moor: Good afternoon and thank you, Mr Chairman, members of the committee. My name is John Moor and I'm the president of the Police Association of Ontario. I'm also a sergeant with the Windsor Police Service and I'm also the president of the Windsor Police Association. Accompanying me today are three of my colleagues who will also be speaking during this presentation. John Miller is the chairman of the Police Association of Ontario. Paul Walter is the president of the Metropolitan Toronto Police Association. Paul Bailey is the president of the York Regional Police Association.

The Police Association of Ontario is the umbrella organization for Ontario's 23,500 front-line police personnel. Our membership includes all front-line municipal and provincial police officers and front-line civilian support staff working within municipal police services.

We're here today to urge this government to keep your pre-election promise to maintain police funding, a promise that we took very seriously, a promise which convinced many people in the province of Ontario to cast their ballots in favour of a Mike Harris government. It's a promise that was broken by the government's financial statement of November 29 and the enabling legislation of Bill 26.

As you sit here today, municipalities and police service boards are working together in this province to reduce their police budgets, cutbacks that will be achieved by reducing the number of police officers and front-line staff through layoff and attrition.

Before, during and even after the election, the Mike Harris campaign team portrayed public safety as a foundation of the party's platform. Following are quotes from various documents that we, as well as the people across this province, have received from the government:

"Feeling unsafe in our homes and on our streets makes victims of us all." That's from the throne speech by the government.

"Take the cuffs off the police and put them on the criminals by giving the police the support and the tools they need to fight crime." That's from a campaign letter by Mike Harris.

"Funding for law enforcement and justice will be guaranteed." From the Common Sense Revolution.

"Funding restrictions have direct effects on the ability of police to meet the needs of their communities." "Police

should be given greater priority and support, including the allocation of existing resources." That's from the Blueprint for Justice and Community Safety in Ontario.

The cuts announced on November 29 are proof beyond a reasonable doubt that this government has abandoned its promise to law enforcement. Frankly, our members are feeling betrayed.

On January 9 our members adopted a resolution calling for Premier Harris, Solicitor General Runciman and the government of Ontario to fulfil their election promises by placing a moratorium on reductions to police funding levels. Although we've met with the Premier, we've met with the Solicitor General and we've met with several cabinet ministers, our call has gone unanswered. Twice we appeared before the subcommittee on Bill 26. However, the government was too busy piecing together its own amendments to Bill 26 to attend to our concerns.

We're here today to tell you that calls for service in many police services are going unanswered and police officers are becoming too busy to attend to the number of calls that are being received. Reductions to police budgets will only serve to exacerbate these difficulties, compromise public safety and place our members at undue risk.

My colleagues will now elaborate on some of the concerns that we are facing in policing today.

Mr Paul Walter: Good afternoon, Mr Chair and committee members. My name is Paul Walter. I'm the president of the Metropolitan Toronto Police Association.

I would like to alert you to a very serious and potentially violent scenario which is unfolding across this province as we sit here today. As you know, the Ontario Public Service Employees Union is currently holding a strike vote for its members. Many observers continue to comment on the strategic political gain for this government in the event of a public sector strike. Given the nature of your jobs, I'm sure that most of you are focused on the political impact of a public service strike for the fortunes of your own political parties. Let me assure you that there are far more serious implications that you should be aware of and that you need to consider.

During the past few months, we have seen an escalation of violence by anti-government demonstrators. Many groups, frustrated by the actions of this government, are expressing their frustrations by violence. Just last week, four of our members, four police officers from Metropolitan Toronto, were hurt during a student protest in front of the Legislature. According to our analysis, this level of violence is likely to increase, at least in the short term. In Metropolitan Toronto, we simply do not have sufficient police personnel to redeploy police officers from important policing duties, such as tracking the serial killer. I could tell you right now, with the amount of police officers who are deployed looking for the serial killer in Scarborough, if we had a demonstration in front of Queen's Park, I doubt if there would be sufficient police personnel who could be mustered to provide the necessary level of protection if the demonstration got violent. In addition, for all of our members who must police these confrontations across this province, it means a significant increase in the likelihood of serious injury. Along with picket lines, and particularly with replacement workers, there's confrontation and police officers get injured.

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So I would like to say to this government, in the very strongest of terms, that we are not going to compromise police officers' safety for the sake of and for the purpose of the negotiating agenda of this government. Police officers are not going to be used as tools for this government's negotiating position with OPSEU. I would much rather see a broken window in the front of the Legislature than a police officer with a broken nose.

Under Bill 7, which repeals the previous government's Bill 40, this government is currently in a position to hire replacement workers in the event of a strike. In fact, the head of the government's negotiating team, the Chair of Management Board, has stated publicly that replacement workers will be considered as part of the government's commitment to ensuring that public services are delivered.

The use of replacement workers leads to violence, as I said, and based on our experience, this form of violence, again, leads to injuries to police officers. I urge you as government members to consider the safety of our police members and not your political strategies when you make these decisions.

I'm also not very proud when I tell you that I live, and I'm sure some of you live, in the bank robbery capital of the world, Metropolitan Toronto, and that armed robberies have jumped by 164% in the past 10 years. I take absolutely no pleasure in reminding you that crimes of violence in Toronto have increased nearly twofold over the last 10 years, and it is saddening to me that women in our society are afraid to walk our streets, that our daughters are conscious of their own safety wherever they go and that many women are victims of violence in their own homes.

What disturbs me most is that it is only getting worse. While some analysts take comfort in the suggestion that certain crimes have decreased in the short term, the overwhelming evidence is that our society has become more violent and less safe over the last 10 years.

Front-line police officers and front-line support staff are well aware of the toll that crime has inflicted on our communities. Police personnel across Ontario took notice—and believe me, we did take notice—of the promises made by now-Premier Harris and his party colleagues during the election.

During the election, the Metropolitan Toronto Police Association forwarded questionnaires to all Metro area candidates. Those candidates who responded in a positive manner on law and order issues were endorsed by the association in a full-page ad in the Sunday Sun. The ad was not only intended to signal our support for this government's position on law and order issues, but as a public statement of our determination to hold the endorsed candidates, some of whom are sitting here today, accountable on behalf of all Ontarians.

I can only tell you now that this level of support by our police association and by the police members across this province was dealt a dramatic blow, and I say this sadly to the government members. Police personnel across this province feel a tremendous sense of betrayal, and that betrayal is at the hands of this government. In discussions at Police Association of Ontario meetings and

meetings of the Metropolitan Toronto Police Association, police staff are reacting with anger at the anticipated funding cuts and changes introduced through Bill 26.

As crime rates double, police strength in my community, in Metropolitan Toronto, has dropped by 700 officers in the last five years; 250 more police officers are expected to retire in Metro Toronto under an early retirement incentive package by the end of March, without adequate plans to replace them. In fact, there are no plans to replace them. We already have 300 fewer police officers today than we did 20 years ago. Given the growth in crime rates and growth in population, this is truly frightening. As police officers, we find it unacceptable that our citizens do not feel safe in their own communities. It is clear that priorities must change. Mike Harris told us that policing would be given renewed priority and support. We're asking him and you, as the government, to deliver on that promise.

Police management and police services boards may or may not tell you that all is well. You are supposed to be comforted when they tell you of their commitment to front-line policing. You are to take solace in the suggestion that our streets are safer than many American cities whose inner core have been gutted by crime. Yet while our neighbours to the south get tougher on crime, tougher on violence and tougher on parole, we continue to walk down the path of social tolerance and naïveté, nurturing an environment which deters respect for the property of others, numbs us to violence against our neighbours and invites organized criminals to find haven in our backyards.

Our capacity to respond to priority calls continues to be diminished. Investigative units like the sexual assault squad, drug enforcement, detective units and street crime units are reduced to augment front-line staff. Police managers move magnets on their deployment charts like the Dutch boy moving his finger from hole to hole in the dike. We may be able to stop one leak, only to see others develop slightly out of our reach. And I really ask the question, is this the type of protection we should expect in our communities? Obviously not.

Look out your windows. Read the papers. Talk to your constituents. We're not fearmongering or using scare tactics. Why is the alarm industry thriving? Why are many women carrying cellular telephones and personal security alarms? As a bit of an aside, I purchased a cell phone for my wife because I am concerned about her safety. Look out your windows, read the papers and talk to your neighbours and know that escalating crime is making them victims because they don't feel safe in their own homes.

The government members of this committee have the ability to restore confidence in this government by fulfilling your election promise to maintain police funding. Let me close by reminding you of the promise made in the Common Sense Revolution, which states very clearly, and I'm sure you're all very well aware of it: "The people of Ontario are rightly concerned about community safety in our province, particularly the increasing incidence of violent crime."—and this is a direct quote from the Premier—"That is why funding for law enforcement and justice will be guaranteed."

Mr John Miller: Mr Chair and members of the committee, my name is John Miller. I am chairman of the board of directors of the Police Association of Ontario and a director with the Ontario Provincial Police Association. I am also a sergeant with the OPP assigned to the Huronia West detachment at Wasaga Beach.

As you have heard earlier this week, the OPP has been managing change for the past several years by implementing a comprehensive organizational review to identify efficiencies and areas that could be restructured to realize savings. This review was held out to others as a model for change and efficiency. It has become, in our view, a model of trying to do more with less, stretching the thin blue line even thinner.

Now the government seems intent on breaking that line beyond repair. Rumoured cuts to the OPP range from 10% to 20%. It is beyond comprehension how this government can abandon its promises so quickly and turn the knife on the very people they undertook to support.

We know that these are difficult times, and in difficult times people have to identify their priorities and stick to them. This government told us that policing was a priority. It makes sense: common sense. People will not set up businesses in communities that are ravaged with crime. Tourists will not flock to communities where they do not feel safe to walk the streets.

It took years for police to quell the problems at Wasaga Beach. Outlaw motorcycle gangs and rowdy troublemakers were known to favour this area, which served only to deter law-abiding families from making this their vacation getaway. Over these years a significant police presence has returned the beach to the law-abiding citizens and families and reinforced the sense of public safety. Unfortunately, budget cuts have resulted in reductions in staff allocated to this area, and the outlaw motorcycle gangs and rowdy troublemakers are starting to re-establish themselves in this area. We no longer have the edge.

In the singleminded focus to reduce costs, one thing has been forgotten: A reduced presence of police in our communities serves only to invite increased rowdiness, vandalism, property crime and, ultimately, violence, at a time when violence in our communities continues to be on the rise.

In many communities across Ontario, including Wasaga Beach, the OPP provides policing services free of charge. One method of augmenting existing police resources and bringing balance to the funding process would be to require that all communities which receive police services throughout the province pay a proportionate share of those costs. Money raised should be invested into improving community safety and revitalizing policing.

Another issue of importance to our members is the impact of a looming public service strike on police resources. At last week's Police Association of Ontario membership meeting, representatives from across Ontario voted unanimously to request that the province provide funding to cover all costs incurred by police forces, including the OPP, in responding to a public service strike.

Unfortunately, policing in Ontario is ruled by a "rob Peter to pay Paul" approach to managing resources. With-

out sufficient staff and money to address all policing needs in our communities, increased resources to a particular priority come only at the sacrifice of another. Officers who are called in to provide security at the Legislature or in protests across the province are pulled from their regular duties. This means that either their regular jobs are not being done while they are away or, if staff are required, they are called in on overtime.

If police officers are required to attend picket lines, deal with disputes or provide access to those who cross the picket line, these officers will be called in from other assignments and duties. More calls for service may go unanswered. Other services are placed on the back burner, and the thin blue line will be spread even thinner. It is a deplorable state of affairs which will only deteriorate further if the government does not renew its previous commitments to law enforcement and community safety. **1550**

Mr Paul Bailey: Good afternoon. I'm Paul Bailey and I am the president of the York Regional Police Association. I am also a police officer. It comes as a great surprise to me that police in Ontario would have to resort to attending public hearings to plead for resources, begging the government to keep its promises and provide the necessary resources and support to police across this province.

Of significant concern in my area, across the Golden Horseshoe, and in other areas of this province is the proliferation of organized crime. Organized crime represents, worldwide, \$750 billion annually. While Mike Harris may tell you that Ontario has not been open for business for a number of years, the fact is that business has been extremely promising and rewarding for organized criminals. What other business ventures offer such rewards with so very little risk?

York region is not unique in the fact that a variety of organized criminals have established lucrative operations within our communities. In addition to the well-rooted and commonly known Italian Mafias and outlaw motorcycle gangs, we also offer a range of opportunities for eastern European criminals known as the Russian gangs, Colombians such as the Medellín cartel, Jamaican posses and Asian gangs like the Triads.

Depleted resources, soft approach to sentencing, weak monetary and immigration laws and the proximity and ease of entry to the United States present a wide range of opportunities for organized crime. Unfortunately, while the business opportunities for these criminals continue to flourish, the resources available to the police in monitoring and targeting these activities have been eroded to unacceptable levels.

Each organized criminal group brings its own brand of violence to its community. Each has a code of silence, which keeps law-abiding citizens within their communities living in fear, and each has shown resilience to police penetration.

Consider for a moment the violence and aggression that erupted in Quebec last year—I'm sure most of you heard about that—as rival motorcycle gangs wrestled for control of the lucrative spoils. An innocent child was killed in Quebec, and the effects of this violence also

spilled over into Ontario, including where I work in the region of York. Newspaper articles as recent as this past Sunday's Toronto Sun vividly portrayed the activity of these callous criminals and discussed in detail their expected infiltration into Toronto and the surrounding regions in the months ahead.

These terrorists have put the citizens of Ontario on notice that they intend to set up business in Mike Harris's Ontario and have demonstrated that they will react with violence to anyone who stands in their way, this at a time when police resources are already stretched, when a public service strike threatens to increase the demands placed on our officers and when Mike Harris's government's cuts are being meted out throughout police services. Ontario is ripe for the picking.

The Quebec government responded to the tragedies with increased resources. Is the Ontario government going to wait for blood to be spilled before police funding levels are increased? It appears that you are more concerned with beefing up your own security than living up to your promises to improve levels of safety within our communities.

I would be remiss if I did not comment on another issue which is of concern to many police personnel in the greater Toronto area, and that is the suggestions of a "superforce" for the GTA. It is the view of my association and the Police Association of Ontario that the most cost-effective method of delivering police services is further refinement of existing regional models.

The citizens of Markham, Brampton, Whitby and Milton should not see their policing levels depleted further to provide an infusion of needed resources into the Metro area. While there may be further efficiencies that can be found within our regional forces, a move to a superforce would be counterproductive and actually increase your capital expenditures through complex technological support systems for the larger entity. Most of the police services within the GTA have already devoted significant resources to increase their technological support systems based upon their own needs and independent of their counterparts.

Policing is labour-intensive. While police managers promote community policing as a goal, the fact remains that we continue to distance the working police officers from the communities they serve. As of today, our chief announced that he was cutting our Street Beat program, which teaches the kids in the schools. He's taking members from our morality unit and our intelligence unit and putting them back out in cars because we do not have enough policemen on the front line. Amalgamating the police services into the GTA model will only serve to remove the police and the decision-makers further away from the community.

Regional police forces in the GTA sit within the optimum range on the bell curve of efficiency: large enough to exploit any efficiencies which could be found through reduced administration, yet not so large as to reduce community control and autonomy. For the citizens of York, there is nothing to be gained and much to be lost by the creation of this GTA force. Unfortunately, too many politicians seem eager to hold out change as solu-

tions without sufficient consideration of the impact of such change. As you consider your budget for the coming year, I urge you to take great care in the deliberations.

I should also mention that on April 1 York Regional Police is taking over Highway 11 from Steeles Avenue to Bradford, approximately 35 kilometres of the second-busiest highway in Ontario. We did not get one dollar of government funding and we didn't get a one-policeman increase in our budget for 1996 or 1997. So we're taking over a highway that now requires over 30 policemen and we didn't get one cent or one extra police officer to do that job.

Mr Moor: The evidence is overwhelming, I believe. The examples today are but a few of the problems plaguing policing. We could provide you with many, many more examples. As my colleagues have told you, we expected more from this government. We truly believed that you were committed to improving community safety. Cutting police budgets only serves one group of individuals, and that's the criminals. It doesn't improve community safety; it reduces it.

We have three requests for this committee:

First, place a moratorium on reductions to all police budgets, including the OPP's, until such time as the Solicitor General's ministry has, in collaboration with the police community, completed its review of police service delivery and determined an appropriate course of action.

Second, we are asking this government to pay all costs incurred by police services, including the OPP service, in responding to a public service strike.

Finally, keep your promises, now and in the future. Fulfil the guarantee of funding for law enforcement and policing. Reinvest savings found within the justice system to improve community safety. Work with us, not against us, in the fight against crime.

Mr Chairman, just before I close, I'd like to bring your attention to your own government's Party Policy that's put out on the Internet, which we just accessed this morning or it would have formed part of our presentation. If you look through it, all of it deals with exactly what we've talked about your government doing: telling the public one thing and doing something else.

These four pages before you speak about safety in our community, safety of the public, what you intended to do if elected, and now that you are elected, to maintain that. There are just a couple of areas that I'd draw your attention to.

On the second page, under "Violence Against Women," your government makes the statement, "Every woman has the right to feel secure in her home, community and workplace." The last paragraph is really interesting: "A Mike Harris government will make our streets safer and will deal with the products which incite or glorify violence...." I'd ask you, Mr Chair, if you could tell us what your government has done to live up to that.

If you go to the third page, under "Support for Police," all four points are very appropriate. You lead off knowing what seniors and individuals in this province want: They want safety in their streets. In the last line you indicate, "A Mike Harris government will guarantee funding for law enforcement in order to protect individuals, families and their property."

On the last page of this document, the first line: "A Mike Harris government will pass a Victims' Bill of Rights to ensure that victims aren't victimized a second time...."

We're here again, Mr Chairman, to tell you and your government members that you're not living up to those promises. You're not living up to any of the guarantees that were made to us.

Mrs Marland: We passed the bill of rights.

Mr Moor: Exactly. You passed the bill of rights, and the bill of rights is only as good as the people who are there to make sure it's working. If there are no police officers out on the street to respond to these people when they become victims, you can have all the bills you want and it's not going to help anybody, I would suggest. That's exactly what's happening here.

You come out with statements like that. You told everybody you were going to maintain funding for law enforcement, and we've yet to receive, from any member of this government to whom we've spoken, one assurance that funding was going to be maintained. There is not one member from the Premier on down who's indicated what steps were being taken to ensure that the funding levels were maintained. Thank you very much.

Ms Castrilli: On a point of order, Mr Chairman: Mrs Marland mentioned the Victims' Bill of Rights. The Victims' Bill of Rights has been passed, but subject to available funding, which is akin to not passing a meaningful act at all.

The Chair: Given our time constraints, I wonder if we could ask for one short question from each party. We'll start with the opposition.

Mr Colle: Mr Chair, on a point of order: This is a such an important issue. We're talking about an issue that hits every Ontarian. I wonder if it would be in order to extend the time so we can respond to some of these very serious concerns that the police officers from across Ontario have brought forward. I would think that's in order, that we have unanimous consent for an extension to have 15 minutes.

The Chair: Is there unanimous consent? No.

Mr Colle: I think there is unanimous consent.

The Chair: Is there unanimous consent? I thought I heard a no. I'm sorry.

Ms Bassett: Could we have a five-minute recess to discuss? It's going to hold up everybody.

The Chair: Okay, there's a five-minute recess.

The committee recessed from 1603 to 1605.

The Chair: Did I hear a motion that we'd have five minutes each from each party?

Mr Spina: So moved.

The Chair: So moved, and I take it there's general agreement from the committee? Thank you very much. We'll start with the opposition.

Mr Kwinter: I was hoping I'd be able to ask Mr Walter a question.

Ms Lankin: Mr Chair, I think you need to wait for Mr Walter to return.

Mr Carr: Do you want to change the order and I'll go first?

Ms Lankin: Sure.

Mr Carr: Thank you for the accommodation, and thank you very much, gentlemen, for a fine presentation. Obviously, the sincerity and the compassion comes through. I know you're fighting on behalf of your members.

My question is also particularly for Paul. As you know, in Ontario we have a commission which, Paul, your chief has already said he will go to if there are cuts. What do you see happening if there are any cuts with the budgets by municipal governments and they go to the commission? What do you see happening if in fact that process takes place?

Mr Walter: With the greatest of respect to the OCCPS, which is the civilian authority on police services, I would suggest that whatever government direction they receive they will take with regard to funding. Not to impugn their integrity, but they will obviously take their lead from this government if an application is made with regard to reduced funding.

Mr Carr: Do you see that Metro—and I haven't followed the budget deliberations going on now—is heading towards that?

Mr Walter: No. What I see happening is that a retirement incentive package has been put forward. Of a force of 5,000 police officers and 2,000 civilian members, over 2,000 people who have made inquiries and approximately 200 people have already committed to the retirement package. Interviews are taking an extremely long time. The projections are that 325 to 350 people will be taking the retirement, of which about 50 will be civilian members. There are no plans to replace these people. There is a long-range projection in hopes of hiring 150 of what they call cadets-in-training next December so it will form part of the 1997 budget, but by the time they are trained and on the street it will probably be summer 1997.

I'm having a difficult time being able to comprehend what's happening to policing in Metropolitan Toronto. The calls for service are just not being responded to. A friend of mine had an \$8,000 laptop computer stolen from her car last Friday night, stolen from the Toronto-Dominion Centre. She called the police and they advised her: "We don't have any police personnel available. Possibly on Monday someone can come around to your business premises and take a report, or alternatively, we can take the report over the phone."

Most calls for service now in Metro Toronto, unless it involves violence, if the theft is less than \$10,000, you won't see a police officer. Reports of motor vehicles being stolen are being taken over the phone. There is no investigation done at the scene. There could very well be a fraud by whoever's calling in.

There are so many instances when thefts are reported that simple police investigation, something that maybe the complainant isn't aware of, can determine who the culprit and who the suspect is. For instance, perhaps it's an elderly woman reporting her jewellery stolen, and all we do is check back and find out that she had a student painting firm come in and we'll find out who those individuals are. I'm thinking of particular cases where that in fact did happen. Now there's no police officer

attending, there'll be no resolution to that crime and for the most part, a lot of people are just not reporting crime.

Mr Carr: Getting back to the budget process for a minute, I think the safeguards are in place now with Metro. As you know, their debate is that some councils want to cut more but the mere threat of being able to, as the chief has said, go to the commission may prevent that. I see one head shaking no. Your belief is that you think Metro will make the cuts to policing?

Mr Walter: The entire process with regard to police funding of Metropolitan Toronto is budget-driven. There were and are no plans. There are some just starting to be formulated now with regard to long-range police hiring and police presence in Metropolitan Toronto, but it was strictly the dollars, strictly budget and to hell with service, to hell with the type of response.

Before other committees, I've recited instances where a cab driver was held up with a knife, four suspects. He called for the police for an hour and a half to respond. There was no response, and eventually that taxi driver was directed to 54 division to report the crime there.

Other statistics, and we can show you the printouts, show that there are no police officers in numerous divisions at any given time. In one where there was a stabbing witnessed by an eight-year-old boy—the son, as a matter of fact—there were no police units available, and no police units available in seven different divisions within the proximity of 11 Division where the stabbing occurred.

Police officers don't want to work under these conditions. When I go into a division now, police officers don't ask me about salary increases or pensions or vacations. Police officers, a lot of them, are telling me: "I'm afraid. I'm afraid when I'm out on the street because I know there isn't any backup." If there's a violent situation—and with the proliferation of firearms, there are gunshots every night—they are concerned for their own safety. Two or three years ago I wouldn't have heard that, but there are so few police officers on the street now that they know when they get into a jackpot, to use street language, there's not going to be another police officer there or the likelihood of another police officer backing them up is remote.

We have a recipe here for some police unrest and police strife. God, I just urge this government, don't remain focused with tax cuts down the road. We're concerned about public safety. Please, please do whatever you can in caucus to make sure that comes first and foremost, that police funding is maintained.

Ms Castrilli: I am struck by the comments you make about the incidence of violence. I was here last week during the student protest, both inside and outside. While I didn't feel in any imminent danger, I must tell you I was very grateful to an OPP officer who escorted me in the building to collect my things and out again.

I have one simple question. I'd like to go back to the Common Sense Revolution and something you stated as well. I have the sixth edition, and right here in big, bold print it says, "funding for law enforcement and justice will be guaranteed." What did you think that meant before the election?

Mr Walter: Just exactly what it says.

Ms Castrilli: Would you think most people believed that in fact that's what it said, is was guaranteed?

Mr Walter: I feel a little embarrassed, as a police officer for quite a few years, and so have my colleagues—

Ms Lankin: You're good at spotting a con job.

Mr Walter: Frances, you came pretty close to taking the words out of my mouth, and that's what's happened here. In our business, we negotiate and we take people at their word and everything isn't written down, because a lot goes between an agreement and finally getting a written agreement. We believed what we were told. We had full confidence that what we were being told—and it wasn't spontaneous; it was over a period of a couple of years that we were being told this, and we bought into it. We sent out circulars, and I know there are members present who responded to that and gave a commitment to funding levels being maintained.

Mr Colle: I have a quick question then. I guess the message here you want to give to Ernie Eves—he's going to make the decision on the tax cut, because this is all being driven by the tax cut. I guess what you're trying to say—I know what my people are saying in my area. They're saying: "I would rather have a police officer on the corner than a tax cut. I want policing first, and don't jeopardize my safety for a tax cut that's going to go to people who might not spend it in the community."

Mr Walter: Obviously, we agree with that, and I'm not going to get into the entire budget process, but obviously tax cuts, if they are to come, should come for those in the lower-income levels who are going to recirculate it back into the economy. I think for the rest of us we can sort of wait out the period until the deficit has been properly-addressed. I guess that's the best way to describe it.

I also wonder too, and it's another bit of an aside, but I hear Chair Tonks today is making a recommendation for a 1% increase in the mill rate of Metropolitan Toronto to provide for the Sheppard subway. That represents \$6 to \$10 per household. If we in policing had that money, which would generate over \$250 million, we wouldn't be here today. We wouldn't be making this plea to you. I'm just wondering, what the hell's the sense in having a subway if the people who are riding it aren't going to feel safe in riding it?

Mr Kwinter: Paul, earlier today we had a presentation by the Board of Trade, and one of its major points was that credibility is at stake on the fact that if the government doesn't follow through on its tax cut, its credibility is at stake. When you take a look at education, health care and policing, they've already lost their credibility, and you'd wonder why they would zero in on the one thing where they must maintain their credibility is on the tax cut. Do you have any comment on that?

Mr Colle: They still have credibility to the police department.

Mr Walter: I guess where we come from, when you make a commitment, unless there are forces stronger than yourself, you maintain that commitment. You maintain that undertaking. If you're individuals of integrity, then you won't compromise your integrity, you'll deliver on what it is that you promised.

Mr Kwinter: If I could just make one last constructive comment, I think your presentation would have had a lot more force if some of the references to ethnic associations with crime had been removed. I think you may be doing a disservice by calling it the Italian Mafia as opposed to Mafia. I just think it adds an unnecessary component to what I thought was an excellent presentation.

Mrs Marland: I agree.

Ms Lankin: I think your last comment—and any of you might want to add to Paul's comments on this—with respect to integrity and credibility of government and delivering on promises is an important one, but the problem that this government has is that it made a promise that never could be kept. They told the people of Ontario that you can have a tax cut, you can have a deficit reduced in this length of time, and we can do it without cutting health care, classroom education or law enforcement. That was never doable, and there were some other folks in the political arena who tried to make that point—unsuccessfully, granted—but it was never doable.

So in fact the government is going to have to break a promise, and I guess it's a question of trying to convince them what's the morally and ethically right thing to do when you have to—in light of circumstances that are different than what you thought or what you knew or what you told people, whatever that is, what's the right promise to break?

My own inclination is that for the sake of our communities, not just the safety of our communities but the health of our communities and the future of our children, the promise should be to maintain the health care, classroom education and law enforcement commitment that they made and to put off the tax break until some point in time when we can afford it. I wonder if any of you would like to add to Paul's comments, or, Paul, if you have anything more to say on that.

1620

Mr Moor: I would certainly like to add to it, because it started right with the government member to my left who made his comments earlier that—what we've maintained in all our presentations is that commitments, as you indicated, have been made to the police community. They were made quite clear. They were made not only to us but to the public.

Now we're here saying that the funding's not there and that we are witnessing police services across this province being cut, being reduced, and this isn't fearmongering or it's not overemphasizing. But now we're told, or we're led to believe from the government, that there's a safety net put in place, that OCCPS will review any disagreements over police budgets that may be brought forward by police services boards.

That's not true, not in this case, because what's happening—only half the story came out—what's happened here is, all the appointments, or very many of the appointments to police services boards that were made during the previous government, have not been re-appointed. Those appointments are sitting vacant in many communities.

In my own community, the chair of the Ontario police services board came from my community in Windsor.

Her appointment wasn't renewed. Our police services board is now controlled by council appointees. They're not going to object to a budget that council's—

Mr Colle: Conflict of interest.

Mr Moor: Exactly. Council's approving it.

Ms Lankin: Mrs Tepperman you're speaking about?

Mr Moor: Exactly. So to say that OCCPS is there as a safety net for us, it's not there. In many, many localities in this province, it's not there. So we're getting the same commitments that aren't being lived up to.

Ms Lankin: I'd also like to pick up on Mr Carr's comments, because it sounded to me an awful lot like deflecting the attention to Metro and Metro council's decision with respect to the police budget when in fact every council is going to be forced with making horrendously difficult decisions as a result of massive cuts in funding from the provincial level to the municipality. Unless they write into that what areas are sacrosanct, like law enforcement, there is no way this government could deliver on its promise not to touch law enforcement.

But let me come closer to home. John, this is directed at you. The one thing I learned around policing in the period of time I was in government was a lot more about the OPP directly, because as a member of cabinet, not the Solicitor General, we had a direct relationship in looking at what was happening there, and certainly in Mr O'Grady's representations on behalf of the force and the need for more officers.

The recent articles that have been in the paper have quoted people from Mr Runciman's office saying that they couldn't guarantee there wouldn't be any cuts and in fact quoted the Solicitor General, Mr Runciman himself, saying that the Ontario Provincial Police will be subject to the same kind of spending cuts as other areas of government. He hinted that even investigative units of the provincial force could feel the effects.

In many communities, there are no other police forces. It is the OPP.

Mr Moor: That's correct.

Ms Lankin: And I don't think it's true that in rural or small-town Ontario there's less crime. It's a different kind of crime, but there's a lot of problems out there and a lot of communities feeling unsafe.

Could you comment on the Solicitor General's, Mr Runciman's, indications that you're going to be facing the same cuts as any other area of government and how that accords with the promise that you were given?

Mr Miller: At the present time, our resources are stretched as thin as they can get. Response times—much like Metro, we don't respond to a lot of calls now. There's a threshold when you'll go out to a break-and-enter or a theft, and a lot of that was driven by resources. We just didn't have the personnel to go around, and if they're going to stretch or cut our budgets even further, I don't know what we're going to do. We're going to have start cutting investigative expertise, such as our specialized units that complement the officers who are out on the road, such as identification, surveillance units and things like that that go towards help solving some crimes. Those are the first things that'll be cut, but they're support services that keep the front-line officers

active in solving crime, and it's going to affect rural Ontario.

The Chair: Thank you very much. The time has expired and I do thank the Police Association of Ontario for coming in.

Mr Spina: Point of privilege, Mr Chair, please.

The Chair: I don't believe there are points of privilege in committee.

Mr Spina: I want to make a statement to go on the record for the information of the entire committee. Peel Regional Police has just hired, last week, 30 new officers.

Ms Lankin: Oh, please, could we have a response from York region on that? If Mr Spina wants to put things on the record, let's talk about the population growth in York region and how many new officers they've had over the last number of years and what it means.

Mr Bailey: We've had 55% growth in 10 years in York region. In the last five years, we've hired 30 officers. Our population's going up 55%.

Mr Spina: Good luck.

Ms Lankin: You can't defend yourself on this one, Mr Spina.

The Chair: I appreciate the emotion of this subject, as is evident with the committee, and that emotion in this situation will not go unnoticed in our report, I can assure you. Thank you very much for appearing.

ONTARIO CHAMBER OF COMMERCE

The Chair: The Ontario Chamber of Commerce is the next group, and I welcome you to the committee. I apologize for the meeting running somewhat late today. We have had an interesting afternoon. Mr Cunningham, thank you for joining us today. If you would introduce your associate, we do have 30 minutes to spend together.

Mr Wallace Kenny: Actually, I'll introduce us both. My name is Wallace Kenny and I'm the president of the Ontario Chamber of Commerce, and with me today is Ian Cunningham, our director of policy.

The Ontario chamber, if you are not aware, and I'm sure most of you are, is the largest business organization in the province and we have 200 federated community chambers. The Toronto Board of Trade I think spoke to you earlier in the day, one of our members. We have representation from small, medium and large business and we provide millions of jobs in Ontario.

I want to talk to you about a few basic areas today, the first being some general comments on the economy and where our membership sees us headed in terms of growth.

Basically speaking, the consensus of our members is that we can expect only weak or modest growth of approximately 2% to 3% over the next several years. Much of that economic growth we think is going to be export-driven. That means that we're not going to have the same sales tax revenues as we might otherwise expect from that. Until such time as some of the cost cutting kicks in and some of the benefits kick in, I think we can anticipate that kind of modest growth.

Now, I think that means that what we have to realize is we're going to need to be extremely conservative, in

the small-c sense, in the preparation of our revenue forecasts, and I would urge the government to take that into account in the budgetary process.

For several years, the primary policy themes of the Ontario chamber have been threefold: Sustainable government, competitive taxation and competitive regulation.

When we speak of sustainable government, we speak about a government which can remain strong and viable into the future and one that understands the role of the private sector in creating jobs and economic activity in this province, which provide the tax revenues, which provide our services. Those things are fundamental to us, and I don't think one can have a sustainable government without recognizing that.

Competitive taxation means simply that if we are going to attract business and keep business in this province, we must have a regime of taxes which places the province of Ontario in a similar position to its competitors, and that doesn't mean exactly the same tax laws but it means in total a set of taxes that allow us to operate and attract business.

Similarly, competitive regulation is simply regulation which does not unduly burden Ontario relative to other jurisdictions. It's a wonderful thing to suggest that one ought to regulate this or regulate that, and we've seen lots of that in the past, but there has to be a recognition that there is an envelope that one must stay inside of.

We in the Ontario Chamber of Commerce applaud the actions of the current government in restructuring and right-sizing government to create it in such a way that it is going to be sustainable for the future, and that is for the future generations of Ontario. It's not a lot of sense to put a lot of laws on the books and provide a lot of services that you frankly can't afford, and we've seen a lot of that happening in the past, to the extent that we're now spending this \$9 billion to \$10 billion extra a year. So we applaud the actions of the government in attempting to get us back to some level field where we can see some prosperity in the future.

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We think the government understands that the route to sustainability has no room for tax increases, but instead involves reinventing the way public programs and services are provided, and we commend the government for the expenditure reductions announced in the Ontario fiscal overview in July and also in the 1995 fiscal and economic statement in November. We believe you're moving in the right direction, towards sustainable government, and we recommend that you maintain that course of action.

It should be recognized that at any time when one is required to make those kinds of cuts and deal with those kinds of decisions, you are going to make mistakes from time to time. The micro-issues aren't necessarily always going to turn out the way you want, and I don't think you should be embarrassed in fine-tuning those cuts and refining where you're going to make those savings over the course of time. As a government, you've got to recognize that the big picture and the small picture won't always come together, and from a business point of view we anticipate that you will be sensitive to that.

On the matter of competitive taxation, we believe that WCB premiums having been frozen, pending a comprehensive review of that system, and the hydro rates having been frozen, also pending review and restructuring of our electrical power system, are good starting points. In the medium term we believe there is room for both of those to move lower to make Ontario more competitive.

There was a significant amount of work done by the business community under the auspices of the Premier's Labour-Management Advisory Committee, and frankly I have rarely seen such a commitment to a subject as that group put towards workers' compensation. There were some very viable solutions put forward to bring our workers' compensation premiums into line, although the previous government chose not to implement those recommendations, but I would commend them to you because they are a comprehensive solution to that problem. It is a significant problem at all levels of business. Workers' compensation premiums are out of sight and it is discouraging further investment in the province.

Further, we believe the elimination of the employer health tax on the first \$400,000 of payroll will remove a barrier to new job creation. It is very important to recognize that payroll taxes are a disincentive to job growth. I have heard that statement made by this government. We believe that it recognizes that, but we need action in that regard if we intend to create the jobs that are going to give us the revenues which are going to provide us the services we all desire.

Put bluntly, we believe Ontarians are too highly taxed; I think Ontarians generally believe we're too highly taxed. I don't think that's a surprise to anybody. Since taking office about seven months ago, the government has made some headway in relieving Ontario business from unnecessary regulation and some burdensome paperwork. We are very interested to see what emerges from the Removing Barriers to Doing Business in Ontario study, which frankly identified a wide range of impediments to business success. We are eager to see where that takes us, because if we can restart the economic engine of Ontario we are going to be in a much better shape in the future in terms of revenues.

Harmonization of the PST and the GST: We raise this subject. It may be a dull subject, it may not be a subject that seems to get a lot of press these days, but we see it as a critical subject which has to be addressed by this government. We continue to support the harmonization of the federal goods and services tax and provincial sales taxes. Not only does it reduce the paper burden, but also the cost of compliance for business, and it provides a simple, more efficient administration for government. It can also provide some increased consumer spending if it is done in the appropriate way. The delay in finding a solution to this issue risks the re-emergence of a manufacturers' sales tax, something which crippled our domestic manufacturers in their own markets. This is not something that can be placed on the back burner; it's something that we think the government ought to be addressing, and ought to be addressing in 1996.

I'd like to make some comments about the proposed personal income tax reduction. During the election campaign the government campaigned on a platform of policy

proposals which were outlined in the Common Sense Revolution. In that document it stated: "Our tax rates, which are currently among the highest in North America, will be cut by 30% over three years, with half of that cut coming in the first year. This plan will give Ontario the lowest provincial income tax rates in Canada." My understanding, actually, is that that would take us back to 1990 rates, which isn't exactly what I'd call a dramatic shift; it's actually kind of shocking to think that a 30% tax rate cut would take us back to 1990 rates. I wonder how we increased those rates over that period of time quite so quickly.

We applaud the government's determination to live up to its election promise and commitment to reduce provincial income tax rates. We see that as a significant benefit to business. Government doesn't spend quite the same kind of money in the retail sector as do consumers and we see that some reduction in provincial income taxes should boost consumer confidence and indeed provide some real increases to people who have not had their disposable income increased in several years. We also think that it will signal a better place for others to come and grow businesses and build careers.

We as a chamber do believe, however, the primary focus of fiscal policy must be the elimination of the deficit by March 31, 2001, as promised by the government. That is the single most formidable impediment to investment and job creation. In addition, debt service charges utilize increasing amounts of tax revenue and the debt pushes interest rates up and creates a high-risk premium on Ontario investment. This is all not news. I think we have to continue to recognize and continue to focus on the basic things that this government has accepted as its goals. So we urge you to do that.

We do believe it is possible to reduce the deficit and at the same time implement the provincial income tax cut. Having said that, we also think it would be prudent on the part of the Minister of Finance to prepare a contingency plan in the event that revenues do not materialize as forecast, and that contingency plan should require ministries to address where they will get the further savings necessary in order to meet the deficit-reduction goals.

In closing, let me say that the Ontario chamber is pleased with the fiscal direction the government has taken. The government has recognized that we are at a crisis point in Ontario. Had we had that recognition 10 years ago, we might not be sitting here today with quite the problem on our hands. This is nothing new for the Ontario Chamber of Commerce. We've been saying these kinds of things and been making these submissions for a long period of time. We in fact are thankful that, to some extent, the government is moving in the appropriate direction. We are not in a situation now where one can tinker or tweak or refine the status quo; it is just simply not on. So we are confident that the general direction that you're moving in is a good one and we think that it will create a more prosperous Ontario.

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Ms Lankin: Thank you very much, Wallace. It's good to see you. I appreciate your thoughts on the budget process. I actually wish that we had much more information in front of us in terms of medium- and long-term

projections on expenditures and revenues so that we were giving concrete advice about what moves and what measures, and to what extent, the government should be taking as opposed to a general discussion about the general direction of the government, because I think that's not as helpful. I think it's a shame, in a sense. Whether or not you agreed with the previous government's directions, the opening up of the budgeting process and the provision of information is something I hope we would all demand of this government, if not this time, at least as we head into future budget rounds.

In your presentation, you said you support the personal income tax cut, but I think—I'm paraphrasing, obviously—I heard you say, "If push comes to shove, you're going to miss your deficit targets as a result of this."

Mr Kenny: No. If push comes to shove, I think that one ought to look at how government ought to be cut further in order to ensure that these consumers can get money back in their pockets. It's a question of how you distribute this money, whether you put it in the hands of consumers or leave it in the hands of government and where it is going to do the most good. You can have a raging philosophical debate about that issue. We happen to think that from a business perspective it's better in the hands of the consumers than in the hands of government.

Ms Lankin: From an ideological perspective and/or a business perspective and/or a general approach, I understand the position that you put forward. Here's the query that I have, and we've been given no information from the government to answer these concerns. Every economist who has come forward whom we've questioned has generally said that the tax cut, the way it's proposed, which would provide more income to higher-level earners in our economy—that there will be a lot of what they call "leakage" from that; ie, that it's not going to all go back into the economy, that there will be certainly debt reduction, there will be additional savings, there will be investments that could be offshore or vacations or whatever. It's not necessarily going to be, cent for cent, dollar for dollar, stimulative in terms of the productive capacity of our economy.

At the middle-income and lower-income levels, where we see a downward pressure on wages, where the money that's coming back from the tax cut is minimal and largely offset by additional user fees, where that money would actually immediately go back into the economy and be more stimulative and affect that, they're not going to have the disposable income to do it.

So my problem is that we know there will be an economic drag from further cuts in order to accomplish the tax cut, right? I'm not talking about the cuts they've already announced, but if they have to do more, like you say, there's going to be an economic drag from that. The stimulus effect of the tax cut is certainly unknown, and anyone who said there will be says it won't be for two or three years out. Is there not a danger of a slide back into a recessionary state at this point in time?

Mr Kenny: There's a danger doing many things. I don't think the tax cut is going to be something that's going to encourage us sliding back into a recessionary situation. I actually don't think the government cuts are likely to do that either. We've heard a lot in the press

about the government cuts, but Ontario created jobs in 1995 and it's anticipated it will create jobs in 1996, so I'm not sure if you can look at those issues in isolation.

We would disagree in terms of whether or not the tax cut for low- and middle-income earners will be eaten up by user fees. I think there are significant cuts being proposed to that group, cuts that those people will consider to be significant and will likely spend. I think that obviously is where those tax cuts ought to be focused, as opposed to the high-end earners. But there's a mistake when one talks about how that money gets put back into the economy, because if somebody pays down debt, that money is available for somebody else to borrow. If that money is invested, that money can be invested in Canadian business. So there are a variety of ways that money can be used in the economy; it's not simply at the consumer level. What you want to do is free up money so that the private sector, the private citizen, has money available to it as opposed to the government. That's something the chamber applauds.

The Acting Chair (Mr Gary Carr): I'm afraid we have to move on to the government side.

Mr Wettlaufer: Thank you, gentlemen, for your presentation. You'll have to excuse Frances Lankin for not being able to understand the nuances of economics.

Mr Kenny: I wouldn't say she can't understand that.

Ms Lankin: On a point of personal privilege, Mr Chair: There are a number of things I would like to say to the member opposite, but let's just proceed on the basis of some attempt at mutual respect for differences of opinions and differences of approaches within the context of listening to members of the public and their presentations.

Mr Wettlaufer: Point taken, Frances, point taken.

The Acting Chair: If the Chair could intervene here, I appreciate it's been a long committee hearing. We're at the end of it. We have some people presenting for us. If we could try to just carry on. Mr Wettlaufer, you have the floor.

Ms Lankin: I don't appreciate your intervention in the middle of my point of personal privilege, Mr Chair, in support of members of your caucus.

The Acting Chair: It wasn't a point of personal privilege.

Mr Wettlaufer: Frances, I did say, "point taken." I apologize to you.

The Acting Chair: If we could continue on. Thank you very much, Mr Wettlaufer, you have the floor.

Mr Wettlaufer: We have heard from the economists today and yesterday that we should cut spending deeply and quickly. We have heard from them that the tax cuts were necessary, that we should carry through on them; that in some cases, yes, it would go to savings. We have heard that in some cases that would increase confidence. We have heard that in some cases it would be used to increase spending. Would you care to comment on the implications if our government did not carry through on its deficit program as we have outlined it in the Common Sense Revolution?

Mr Kenny: You are talking confidence issues here, and right now, interestingly enough, consumer confidence isn't reflective of where our economy sits. Consumer

confidence should be higher. I see it as being critical to the direction in which this government is headed for it to fulfil what was its basic commitment to the broad sector of taxpayers in this province. That will create confidence.

You have been more successful than I think any government in the last 15 years at actually doing what you said you were going to do. But this is a rather significant component of your platform, and much of your credibility and much of the confidence that you have generated in the direction that you're headed is indeed dependent upon it. So it's a confidence issue. We like it because we like the money going back to the private sector, where we think it is more effectively spent.

Mr Kwinter: Mr Kenny, you say that the chamber is the voice of business. I'd like to pursue your comments on harmonization. I find that as the voice of business your members are not singing from the same prayer book or hymn book in that we've had various groups appear before us, which you would certainly be considered the voice of, giving contrary views. For example, the Ontario Restaurant Association is unalterably opposed to harmonization. The Ontario Hotel and Motel Association is unalterably opposed to harmonization. Today we had the Canadian Bankers Association saying, "We believe that integration of the federal and provincial sales tax, rather than their harmonization, should be pursued."

I'm not taking a side one way or the other, I'm just saying we're getting mixed signals in that you're coming forward and the Canadian Manufacturers' Association is coming forward and saying, "We absolutely have to harmonize the GST and the PST," and then we have component members of your organizations coming forward saying, "Absolutely not; it would be disastrous for us if there was harmonization."

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All I'm trying to get is a handle, because we're going to have to be making recommendations. It's one thing to say, "The Ontario Chamber of Commerce says this, but some of its members are opposed to it." Then you say to yourself: "Well, which way is it? Where are we going? Should we be harmonizing? Should we be recommending to the Minister of Finance that he should pursue harmonization or should we say, 'We've got some pretty significant components out there, the bankers, the restaurants, the hotels, saying no, it's going to be a problem for them?'"

Mr Kenny: I'm sorry, you indicated that the Canadian Bankers Association suggested integration as opposed to harmonization, and I'm not so sure I understand the distinction between those two.

Ms Lankin: I do, but Mr Wettlaufer wouldn't want me to comment on that.

Mr Kenny: I actually have some confidence, Frances, that you would. Well, you know, we act for small, medium and large businesses, and we appear here, and our general membership indicates to us they believe harmonization is good. There will always be components of our economy that see it as disadvantageous. That doesn't mean that overall we should not move on it. I'm not sure I have enough time to get into this in great detail with you, but we'd be happy to get into it in more detail at another time.

The Acting Chair: Unfortunately, you're correct, we are out of time. The four minutes was up.

Ms Castrilli: That's four minutes?

The Acting Chair: Oh, well, go ahead, I'm sorry.

Ms Castrilli: I'm interested in your certainty with respect to the provincial income tax reduction. I wondered if it would surprise you to know that there are some eminent entities, that no one would accuse of not having economic knowledge, who feel otherwise. Would it surprise you to know that the Royal Bank of Canada, for instance, is a little ambivalent as to the net effects of the tax reduction when you look at timing and leakages and so forth? Would it surprise you to know that the Bank of Nova Scotia this morning, an expert witness, said: "There's no guarantee that Ontarians would fully spend their tax saving. Residents may opt to spend less and save more in this uncertain environment. Ongoing business restructuring and increased fiscal cutbacks by all levels of government and concern over programs such as the CPP will continue to reinforce consumer caution" and therefore, one would conclude, negate any benefit that there might be from such a reduction? I wonder if you might comment on that.

Mr Ian Cunningham: It's not a surprise. We consulted with some of the bank economics departments in the preparation of our presentation.

Ms Castrilli: You obviously don't agree with the position the banks are taking, is that it?

Mr Cunningham: That's correct.

The Acting Chair: Thank you very much. I thank the Ontario Chamber of Commerce for its presentation.

While the next group comes forward, if we could, the clerk informs me that he will be handing out the underground economy submission from the Fraser Institute to all the members. He's doing that now.

ONTARIO PUBLIC SCHOOL TEACHERS' FEDERATION

The Acting Chair: I'd like to welcome the Ontario Public School Teachers' Federation. Please identify yourself for Hansard and begin when you're ready.

Mr Reg Ferland: Good afternoon, members, and thank you for the opportunity to speak to you. I'm Reg Ferland. I'm the president of the Ontario Public School Teachers' Federation. With me today is Dave Lennox, secretary-treasurer and chief administrative officer for the federation; and our government relations officer, staff officer Vivian McCaffery.

The Ontario Public School Teachers' Federation represents 36,000 teachers, occasional teachers and educational support personnel who work in the public elementary schools across this province. The federation welcomes the opportunity to participate in the pre-budget hearings of the standing committee on finance and economic affairs and, more specifically, to comment on the agenda of the present government.

The first page of our brief is an outline of the long-standing concerns of the federation regarding provincial funding for education and our assessment of the lack of progress on these issues. I will leave that for your reading.

What I would really like to focus on today is the government's agenda, the Common Sense Revolution agenda. We do not accept the key assumptions of the Common Sense Revolution agenda. We do not believe that the government can fight the deficit and rejuvenate the economy through drastically slashing public sector jobs and services or by redistributing income to the wealthy through the proposed 30% reduction in income tax.

The PC Party sold its cuts in government expenditure and tax cuts as a way to stimulate job creation and consumer spending. According to the projections of the Minister of Finance, the CSR goal of creating 750,000 jobs is not realistic. The government is projecting increases of 81,000 to 100,000 jobs in 1996 and 1997 respectively. Given the downsizing in the Ontario public service and across the broader public sector it is inconceivable that employment figures will grow to match the government target.

The federation also disagrees with the rationale for the cut in income tax rates. The CSR proposal to give higher-income earners the greatest benefit of the proposed tax cut will do little to boost consumer spending. Lower-income earners who spend a higher portion of their disposable income on consumer goods will not have much additional income through the tax cuts. We also suspect much of the tax benefits will be eaten up by user fees and increased cost for municipal services.

We fear much of the surplus tax income which goes to higher-income earners will go to offshore vacations and investments rather than to stimulating the Ontario economy. We also fear that this government is taking us closer to the American model where there is no public health system and where there is a two-class system of universities. The difference in taxation between our two countries is accounted for by our higher health and education spending and by transfers to low-income groups. These expenditures are essential to preserving our humane society.

On the issue of cuts to education: In order to recoup part of the loss in revenue due to the proposed cut in income tax rates, the government is planning to cut \$1 billion from education spending. In order to sell this policy, the Minister of Education and Training has been on a provincial tour claiming that Ontario spends more per pupil than any other province, and that, as a result, we have a \$1.3 billion overexpenditure. Data from Statistics Canada reveals otherwise, and I ask you to look at the chart on page 5 of our brief to witness those numbers.

Contrary to the assertion of the minister, Ontario spends only \$165 per pupil above the Canadian average, and less than the two territories and than Quebec, Manitoba and British Columbia. It should surprise no one that Ontario spends above the Canadian average. Ontario consumer prices are considerably higher than those of provinces which expend less. A higher cost of living results in higher salaries. Previous provincial governments have supported important programs through the grant structure, such as reducing primary class size, expanding special education services and supporting pay equity legislation. Another item, Ontario is the destination province for more than half of all immigrants to Canada

and the resulting costs of English as a second language are extremely high.

This government has violated its election promise of reducing education expenditure outside the classroom. The ministry is today cutting \$110 million from the junior kindergarten funding. The minister is reported to be considering a number of targets for expenditure cuts, including teacher preparation time, the number of principals and vice-principals within our schools and enabling school board to hire non-teachers to perform certain functions, to mention just a few.

On the issue of preparation time: Classroom teachers are outraged by the attempt by the Minister of Education and Training to characterize preparation time as a non-classroom expenditure and unrelated to teachers' productivity in the classroom. This totally misrepresents preparation time and reflects a complete misunderstanding of the nature of a teacher's day and workload. I direct you to the chart on the bottom of page 8, which provides a general overview of how teachers use their preparation time. 1700

I would also like to share with you the contents of a poll conducted by the ministry. I've read through a lot of polling questions over the course of my career in OPS as an executive member, and I've never seen anything like this one. The questions are blatantly leading and provocative. This is not just my view, but considered the opinion of Dr David Livingstone from OISE, who is the principal investigator on public opinion polls. I'd like to highlight just a few from the paper that I've just distributed to you in particular, and I'll go right to the very end. They seem to be more meaningful.

I'll go to 15, for example. "In Ontario, we spend \$600 more per pupil than the average." We've just seen statistics that totally eradicate the validity of this number, so we have to challenge that particular question in a polling type situation.

"16. Since teachers have had it so good for so long, should they not be asked to suffer a little too?" I'd like to know what was the expected answer from that one.

In 17, if I might highlight, "How could teachers contribute to match the sacrifices others have made" in society: "5% cut in salary, loss of preparation time, loss of sick days, loss of retirement gratuity?"

I want to highlight the bracketed portion, that the respondents had to answer one of these. There was not an opportunity to say "No comment" or "No answer." We find this type of polling to substantiate opinion rather complex and perhaps questionable.

In a speech yesterday to public school trustees and directors of education, Mr Snobelen referred to some recent research the government has done on ways to cut education funding. I can only assume that the poll you have before you is that research, and I challenge anyone to conclude that this is a responsible way to seek public opinion and to set policy for this province. The poll exposes the government's crass attempt to mislead the public on some key issues that affect the quality of education in this province.

On the issue of administration time: The proposal to reduce the number of principals and vice-principals in elementary schools also reflects the government's failure

to examine the impact of such a move. Principals and vice-principals provide the direction and leadership in school organization, in management, curriculum instructional programming and developing communication with parents and the broader community. They are also responsible for all accountability mechanisms in place in schools and for ensuring a safe school environment.

The expectations from the community and from the ministry itself for the school leaders are increasing and becoming more complex. A major time-consuming focus for principals this year, for example, will be the establishment of school councils. Another is the implementation of provincial Common Curriculum. Principals and vice-principals are being asked by the provincial government to take on more, not less, responsibility. It is hardly the time to reduce administrative time in our schools.

Differentiated staffing: The federation is particularly disturbed by a proposal from the Ontario Public School Boards Association to amend legislation to allow school boards to hire non-teachers to replace such teachers as teacher-librarians, computer and guidance specialists and junior kindergarten teachers.

The government should reject such a proposal unless it wants to see a decline in the quality of programs and in the ability of schools to successfully integrate school curriculum. Education levels, teacher training, a broad knowledge of curriculum and of child development are all essential qualifications which teachers bring to their positions.

Previous cuts to education: The education sector has already been hit by expenditure reduction. Teachers have already seen their incomes fall, their class size increase and school support services diminish or totally disappear. School boards have been cutting back their budgets since 1992 when they received less-than-inflation transfers from the province.

Downsizing at the school level continued throughout the social contract and the expenditure control program. Enrolment in the public elementary schools is increasing, while staffing is declining. Specific figures are provided for you on the bottom of page 11 in our brief.

Given the expenditure cutting that has already gone on and given the amount of the proposed cut to education spending, this government cannot possibly deliver on its promise to cut education expenditure without affecting the classroom, no matter how you define it.

In concluding, I'd like to propose a few alternatives to be examined. We urge this government to look beyond the figures on the ledger and consider the real impact of cutting \$1 billion annually from transfers to school boards. We believe that this government is moving too far, too fast with its plan to cut expenditures. We believe that there is a general concern on the part of the Ontario voters, and that is evidenced by the latest Environics poll. Those polled expressed particular concern with respect to cuts to health and education.

We believe that the government should do more to encourage some of the very innovative joint ventures initiated by some school boards to save on administrative costs. We believe that slashing the public sector jobs at this time of economic fragility will only delay any potential economic recovery. We urge the provincial

government to reform the tax structure so that those individuals and corporations with the highest income pay a fair share of the tax revenue. We also urge the Ontario government to take a lead role in promoting a lower interest rate policy and a reform of taxation at the federal level. Thank you for your attention.

Ms Bassett: Thank you very much for your presentation. You raise a number of interesting points. As you know, the Minister of Education hasn't come down with anything definite, so we're waiting for everything.

For clarification, you say on page 10 of your submission about substituting trained staff for less-trained staff, and I wonder which jobs you're referring to specifically. You say, "to amend legislation to allow school boards to employ non-teachers to perform a number of specific roles." I wonder what type of roles you were thinking about, just for clarification purposes.

Mr Ferland: I'll highlight a few, if I might. One is the teacher-librarian, the removal of the teacherness for that person and that person becoming a library technician, if you will, who would manipulate books and stock shelves and order books. It would be a very negative use of our well-staffed and well-stocked libraries across this province if they only became book depositories, if you will, and not being used as a teaching area.

Other areas are guidance counsellors, for example, who work within our schools. The proposal is that these people would not be teachers but social workers of some format.

Ms Bassett: Does that matter particularly? I know everybody wants the system as we've known it. That's what I've grown up with and am used to, but I wonder, in terms of the librarian, for instance, if you had a volunteer in who knew a lot about books who could help the children, given the crunch in funds that we have right now.

Mr Ferland: We're going to get into a development of what is a teacher-librarian and what a teacher-librarian does, if we're focusing on that one. I have no belief that we as a concerned community would want a person in a library in a school who would not be able to help the students learn. Knowing something about books does not make you a teacher, and we have to define the role of a teacher-librarian in a much broader sense than just a person who puts books on the shelves and so on.

A teacher-librarian controls and helps the learning from a structural point of view within that particular building by helping teachers prepare for units of work, getting the research material, finding a place where research can be accessed, whether it's through the computer network or an actual text material. And the list goes on: working with students one on one or in group settings to direct them and help them. The teaching strategies are used from the beginning of one's teaching career to the ultimate end and would apply differently. But we could not expect that same service from a library technician. They're not trained individuals to do that.

1710

Ms Bassett: Are there any areas where you could see teachers, if you couldn't afford them any more, putting in substitute people who were less trained, as, say, they put in with the police the green hornets? Not that you can

equate them, but that idea of just using in areas expensive staff and putting in less-expensive people.

Mr Ferland: If I hear your question properly, is there a particular subject that we believe is expendable within the curriculum and we do not need a teacher to deliver that part of the curriculum—

Ms Bassett: Or area, not subject, in the school system where you're using teachers where maybe you don't have to use them.

Mr Dave Lennox: The answer, to be quite frank about it, would be no. The reason I'm saying no is that we have already filled in those spots with teacher aides, with library technicians, with lunchroom supervisors who are not teachers. All of those roles are outside the teacher domain right now, so to move into the teaching curriculum roles with non-teachers is not acceptable to us. I can't identify any area between kindergarten and OAC where we're dealing with students in an academic learning environment that we would not require teachers.

Ms Bassett: You've already done, then, what I was looking at.

Mr Lennox: Yes.

Mr Colle: I guess the interesting thing is really this push poll. I have been asking all over and I'm trying to find out whether any other government department has ever done push polling and whether this is something that has been done around Queen's Park. But the gall of the Minister of Education to spend I don't know how many hundreds of thousands of dollars on this push poll because the nature of push polling is not like ordinary polling where you do a select sample. The idea is to contact as many people as possible.

I know my next-door neighbour phoned me one day and said, "Boy, I was on the phone with this person for 45 minutes and he was slandering teachers," and I said, "I bet you it's some Tory organization." Then I find out it's the minister basically using taxpayers' dollars to essentially denigrate, destroy teachers as a profession and to make them look in the worst light. I wonder how much this cost. I know that our critic has put forward that request.

If you look at the questions, they're just so ludicrous they're so obvious in their intent:

"In other jobs, people often prepare outside their work time. Should teachers be expected to do the same?"

"As a taxpayer, do you think there should be a rise in taxes to support education?"

Who's going to say they want an increase in taxes? It's just an obvious, blatant attempt to manipulate public opinion, basically to soften the public for what's coming.

The question I'm going to ask is, obviously the agenda's been set, that the cuts of an unbelievable magnitude are coming to teaching and to classroom education and to students. How is this going to affect children who are right now in stressful situations because of the ongoing growing class sizes etc that are already in our schools?

Mr Ferland: Thank you for the question. You make a good point about the poll, first of all, and through your question. The effect will be a very drastic effect, there's no doubt. At this point in time, if we continue to remove the resources in the classroom and the support mechanism

for the teachers in the classroom, it's going to start to affect all special-needs students, whether at the top end of learning or at the lower end of learning, whichever their needs may be. The teachers, by having more students in their classroom, will not be able to bring attention to the individual child. That's a given.

In response to the question about the poll, something comes to mind that perhaps this is creating a bit of a crisis before the storm that is going to hit us with the cuts and this is helping to make that a reality, in case it hasn't been public enough to this point.

Mr Colle: Obviously what's happened, it looks like they've created a crisis now, the softening before the final assault. What I'm worried about is, how are you going to be able to react and defend those children in our schools from the dismantling of an education system? This is what I'm worried about, because these so-called tools—and this is the first tool they've used. They talked about Snobelen's tool kit. This push poll is the first hammer, you might say, to soften the public on it.

Have you got a contingency plan in terms of protecting students on what's to come? That's what I'm worried about, because it seems to me it's inevitable. They've already made their mind up; they're coming. He's been going around the province telling everybody, "It's coming, it's coming." Is there any contingency protection plan for those students in our schools who are vulnerable?

Mr Ferland: I'm going to give you a preface before answering the question. It's odd that the Ministry of Education, which has been entrusted with the care of the students, seems to have no concern about students; also very odd that the trustees of this province, who are supposedly entrusted with the care of delivering education to the students, have brought forward many of the tools that the minister is now proposing or contemplating at this point. I guess it's even odder that it comes to the teachers of this province to have to defend education, one of the few elements that we find ourselves having very little credibility in, because as soon as we speak on behalf of education, one accuses us of being very self-centred and egoistic in our concerns; egotistical, if you will.

The plan is going to be unfolding as we see what the tools are going to be and what the announcements will be from the ministry in the coming weeks. We are going to have to assess what the hurt is, where the cuts are and the impact of those particular cuts and come back to those who want to hear and those who want to listen, whether it's the community or whether it's the parents. Hopefully some concerned individuals perhaps in power at this point will be concerned about the quality of education in this province. We are certainly going to keep tabs on this particular situation and be very responsive and make it public.

Mr Wildman: Thank you very much for your presentation. I'll make a couple of comments and then I'll direct a question.

Obviously, all along through the development of the education system in this province we've had a lot of different people and groups who have an interest in education. The community at large, students, parents, teachers, trustees, the government, the business community, labour

and so on all have an interest; taxpayers, generally. All of us have an interest. But up to now we've striven through Tory administrations, Liberal administrations, an NDP administration, to have a student-centred education system. What we're doing now under this administration is moving to a taxpayer-centred education system.

In cutting \$400 million from the grants, you've pointed out that this works out to \$1 billion in one year in cuts for the boards and for education in the province. The minister himself has admitted that it's at least \$800 million, so double the \$400-million cut in the grants in one year.

I'd like to ask you a question on that specifically and then I'd like to ask another on the poll. Is it possible to cut \$1 billion out of the education system in this province and not hurt classroom education? Honestly, is it possible to do it, and if so, why?

Mr Lennox: It's not possible to cut \$1 billion out of education in this province without hurting the student in the classroom. More importantly, if it were possible to cut \$1 billion, it's not possible to cut it in this time span.

Mr Wildman: In one year, yes.

1720

Mr Lennox: In one year and four months. Boards have to line up this \$1 billion for next September, the start of the next school year, so what you're asking for is the education system to be hacked at, to be gutted, next September. You have to understand that what we're talking about here right now is that something has to happen to between 10,000 and 12,000 teachers in the province.

Mr Wildman: They're going to be laid off, aren't they?

Mr Lennox: They're gone. Close your eyes now and decide what happens when 10,000 to 12,000 teachers are not there next September. It doesn't take much imagination to know what education system we've got left. That's what we're looking at.

Mr Wildman: And the cuts to prep time obviously directly relate to classroom education. This poll says in number 6: "High school students spend five hours per day in class. Teachers spend 3.5. Is this fair?" That gives the impression that the teachers, for the other 1.5 hours, are sitting at home or sitting in the staffroom or whatever. How do you deal with a poll like that, that gives that kind of impression? What's the purpose of this kind of poll?

Mr Lennox: I'll try to remain calm while I answer this. This is about the 15th example from the Minister of Education, whom I take to be a fairly bright individual, of conniving and shaping situations that are totally demeaning and demoralizing to our front-line educators. When you take these types of blatant comments, his value added business jargon, that if you're not in front of a classroom and don't have 40 kids in your classroom, you're not being productive enough, and to not recognize the fact that you need preparation time for the many intricate things that need to be done in that preparation time—and teachers also work outside the end of the school day.

Mr Wildman: Well, it says here in number 8: "In other jobs, people often prepare outside their work time.

Should teachers be expected to do the same?" Doesn't that give the impression that teachers don't do that?

Mr Lennox: As I say, this is the attitudinal situation that the minister and his staff are perpetuating out in the province right now. You ask how we save the students in the classroom. You don't save them by totally demoralizing and demeaning the teachers of the province.

Mr Wildman: I don't understand the reason for this kind of polling, Mr Chair. I've been here 20 years. I've seen lots of polls done by all governments, and I have never seen a poll like this. I think this committee—

Mr Wettlaufer: On a point of order, Mr Chair: We don't know that this is the exact—

Mr Wildman: I understand. I know this is not the exact poll—

Mr Wettlaufer: That's what I was going to get at. This is a reconstruction.

The Acting Chair: You said you had a point of order. Could you get to it, if it is a point of order?

Mr Wettlaufer: If I could do it without being interrupted. This is a reconstruction; we don't know the exact terminology.

The Acting Chair: This is not a point of order.

Mr Wildman: That's exactly what I was coming to, Mr Chair. I understand the point, and it's a very good point. I was going to raise that matter. I would like this committee to agree to request that the Minister of Education table the poll so we see the exact questions, and not only table the poll itself but the data collected through this poll, the methodology used, the amount of money spent on it—and the justification for this kind of polling. If he can't give a decent explanation, I would request the government members of this committee to repudiate this kind of manipulation of public opinion by a government.

The Acting Chair: As you're not a member of this committee—

Mr Wildman: That's why I was just making a suggestion. I wasn't moving a motion.

The Acting Chair: Ms Lankin may be willing—

Ms Lankin: I would certainly like to suggest that we have unanimous consent to request of the Minister of Education the tabling of the exact wording of the poll and, as soon as they've been tabulated, the results of the poll and certainly the costs of the poll.

The Acting Chair: Is there unanimous consent?

Mrs Marland: Ms Lankin is making a request for information, and we have dealt with this kind of thing previously in these two weeks. It is entirely in order for any member or group of members of this committee to request information from any of the ministers. As a matter of fact, I'm looking at a response to a question I made last week to the Minister of Finance about boards of education budgeting for deficits. We got the answer in writing as of yesterday's date and—

Ms Lankin: Mr Chair, on a point of order.

Mrs Marland: No. Excuse me. I haven't finished.

Ms Lankin: But it's a point of order.

Mrs Marland: Oh, are you going to interrupt me?

Ms Lankin: On a point of order, I am. It is within my right as a member of the committee to request unanimous consent for the request for this information to come from

the whole committee, only because I believe it carries more weight. That is within my right as a committee member, which is what I've requested.

The Acting Chair: Is there unanimous consent?

Mrs Marland: May I just respond? This information was requested, but it wasn't requested with unanimous consent of the committee. Bud, you weren't here, but it was requested without unanimous consent and we did receive the information.

The Acting Chair: I take it that's not unanimous consent. But you can introduce a motion, as I understand.

Ms Lankin: I actually haven't heard what the response to my request for unanimous consent is. I know I can table the question individually. The point is, I think this is a question that all members of the committee would want, and I want to know whether government members want to know the answer.

The Acting Chair: Is there unanimous consent for Ms Lankin's request?

Ms Bassett: No. I don't think we need it, Mr Chair.

Ms Lankin: That's the point. The government members don't want to ask questions. They don't want the information.

Mr Wildman: Mr Chair, this is in line with the Premier's comments at the time the minister was appointed, in which he said too much knowledge is a dangerous thing.

The Acting Chair: The time has expired. I'd like to thank the Ontario Public School Teachers' Federation for the presentation. This brings to a conclusion our hearings.

Mrs Marland has a question about procedure.

Mrs Marland: I just have one question on procedure, members of the committee. Looking at the tentative agenda for next week, I notice that on Thursday the 22nd at 1:40 in the afternoon, the scheduled deputant is Mr Peter Kormos, member of provincial Parliament, the member for Welland-Thorold. What I am going to suggest—well, let me phrase it very directly.

When I was in opposition, there were many occasions when I would have thought it was just great to come before a standing committee of the Legislature and have a full 30 minutes to express whatever it was I wanted to express about the government of the day. However, as elected members we do have an opportunity as members of the committee and, I might add, even as visitors to the committee. A member of the Legislature can sit down in any committee and ask to speak as part of the deliberations of that committee in terms of deputations before it, or if they're going through clause-by-clause, there's nothing to stop a member coming and joining a committee and participating in the business of that committee.

But I think it's a very dangerous precedent to have a currently elected member come before the committee as a deputation. I don't know whether this is a direct request from Mr Kormos or whether he was on one of the caucuses' lists to come before the committee. In any case, I am suggesting—actually, since everyone isn't here, I don't know whether you want me to move it as a motion that Mr Kormos have that explanation that it really wouldn't be appropriate to have a currently sitting member of the Legislature come as a deputation before the

committee. Otherwise, I think we're opening the floodgates to have this happen a lot. I mean, I might as a government member want to go before a committee as well.

Mr Kwinter: Could I speak to that same point? I can't recall in the years I've been here that a member has ever appeared in that capacity. We've certainly had situations where—for example, a committee was sitting last week looking at the security of this precinct, and members were invited to comment because it impacted directly on them. May I suggest that we ask the clerk or legislative research to look into the precedent, if it's allowed under the rules of our committees—just what the precedent is.

Mrs Marland: Thank you, Mr Kwinter, because that was the other point I should have made. Last week I was invited as a deputation to the Legislative Assembly committee to give my historical perspective on security in the building, and there have been times, very critical times, when it has been a request of all members of the party. I can think of hearings involving our colleagues when members have had to come before a committee to give evidence, frankly. That is entirely different from this situation, but it would be interesting to know what the precedent is.

Ms Lankin: I certainly would be interested in the results of that search for information by the clerk, but in the absence of having spoken at all to my colleague with respect to his request, I should place on the record that I am well aware of his long-standing history on and particular interest in this issue, which I am sure that most members of the Legislature would be aware of, and the particular role he's played historically with respect to this issue. I'm sure that is the reason that prompted him to apply to come before the committee and provide us with his perspective on this.

I would be interested in the results of that search, but I think it should at that point still be open for discussion as to whether an MPP who has a particular area of expertise or interest or whatever can contribute to the knowledge of a committee, and whether that's only by invitation, as it has perhaps been in other circumstances, or whether he feels he could apply. I think that is still worthy of discussion. I wouldn't want the results of the search to dictate the answer this committee arrives at.

Mrs Marland: I was going to move a motion that his request be declined, but I will just table my inquiry until we get the response back from the research into Mr Kwinter's question about whether there is precedent, and we can deal with it on Monday.

The other question I have about a deputation next week is that because of the subject matter before the committee for the next two weeks, which is automobile insurance—maybe the clerk has to answer this question. Is there an expectation that groups that would come before the committee have a direct involvement and interest in the subject matter? Again based on my experience, I am wondering if the deputation preceding Mr Kormos, the Halton Region Coalition for Social Justice, falls in the category of automobile insurance as an area. I just don't know how that group got on the list.

Clerk of the Committee (Mr Franco Carrozza): All the groups and individuals on this agenda have called because of the advertisement. We as clerks do not have authority to ask the groups from which side they wish to speak.

Mrs Marland: No. I understand that. I'll withdraw the question. For every other group I see listed here next week, it's easy to understand the connection with the subject matter of automobile insurance.

The Acting Chair: What I will do on behalf of the committee is instruct the clerk to get the answers that Mrs Marland and Mr Kwinter requested.

Ms Lankin: Mr Chair, I just wondered if I could table a request for some information from legislative research. Alison, some of the presentations we've heard over the last week and a half have referred to the New Zealand experience, in particular to the state of the economy now.

Mr Kwinter: I already asked yesterday.

Ms Lankin: Did you? I wasn't here.

Ms Alison Drummond: I'm working on it even as we speak.

Ms Lankin: I appreciate it if that's already been asked. I'm eager to find the results of that. Monte, I'm always following you.

The Acting Chair: There being no further business, this committee stands adjourned until 9:30 on Monday, February 19.

The committee adjourned at 1735.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Chudleigh, Ted (Halton North / -Nord PC)

Vice-Chair / Vice-Président: Hudak, Tim (Niagara South / -Sud PC)

Arnott, Ted (Wellington PC)

*Brown, Jim (Scarborough West / -Ouest PC)

*Castrilli, Annamarie (Downsview L)

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*Hudak, Tim (Niagara South / -Sud PC)

*Kwinter, Monte (Wilson Heights L)

*Lankin, Frances (Beaches-Woodbine ND)

Martiniuk, Gerry (Cambridge PC)

Phillips, Gerry (Scarborough-Agincourt L)

Sampson, Rob (Mississauga West / -Ouest PC)

Silipo, Tony (Dovercourt ND)

*Spina, Joseph (Brampton North / -Nord PC)

*Wettlaufer, Wayne (Kitchener PC)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Bassett, Isabel (St Andrew-St Patrick PC) for Mr Arnott

Carr, Gary (Oakville South / -Sud PC) for Mr Sampson

Colle, Mike (Oakwood L) for Mr Phillips

Marland, Margaret (Mississauga South / -Sud PC) for Mr Martiniuk

Martin, Tony (Sault Ste Marie ND) for Mr Silipo

Also taking part / Autres participants et participantes:

Wildman, Bud (Algoma ND)

Clerk / Greffier: Carrozza, Franco

Staff / Personnel: Drummond, Alison, research officer, Legislative Research Service

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Legislative Assembly of Ontario

First Session, 36th Parliament

Official Report of Debates (Hansard)

Monday 19 February 1996

Standing committee on
finance and economic affairs

Auto insurance

Assemblée législative de l'Ontario

Première session, 36^e législature

Journal des débats (Hansard)

Lundi 19 février 1996

Comité permanent des finances
et des affaires économiques

Assurance-automobile



Chair: Ted Chudleigh
Clerk: Franco Carrozza

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRS

Monday 19 February 1996

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES
ET DES AFFAIRES ÉCONOMIQUES

Lundi 19 février 1996

The committee met at 0931 in room 151.

AUTO INSURANCE

The Chair (Mr Ted Chudleigh): If I could call the meeting to order, I hope everyone had a pleasant week-end. We have a busy week ahead of us. Are there any items to bring to the committee?

Mrs Margaret Marland (Mississauga South): Yes, Mr Chairman. I raised a matter at the end of the meeting on Thursday which I said we could discuss today because of the time factor at that meeting, and I would like to table that matter until tomorrow after 12 noon, please, if the committee concurs. It was the matter of one of our deputations.

The Chair: Does the committee concur? Thank you. It's tabled until tomorrow at noon.

Mr Wayne Wettlaufer (Kitchener): Mr Chair and members of the committee, I have a letter here from the Office of the Integrity Commissioner and I am supposed to submit it for the record as well as to state for the record my history in the insurance business.

Prior to 1984, I was an executive of an insurance company. From 1984 until July 1, 1995, I was a partner in an insurance brokerage firm. I sold my share in the brokerage July 1, 1995. I no longer have any record; I am not the broker of record for any accounts.

My letter to the Integrity Commissioner outlined my history and the letter that I have received in reply is:

"Dear Mr Wettlaufer:

"I am in receipt of a faxed letter of February 13 with respect to your participation in the provincial government committee studying the proposed changes to the auto insurance industry.

"Your interest in the firm Wettlaufer, Collins and Rankin, insurance brokers, was sold on July 1, 1995, and although you have maintained your insurance licence, you are no longer selling insurance policies.

"As set out in the preamble to the Members' Integrity Act, 1994,

"It is desirable to provide greater certainty in the reconciliation of the private interests and public duties of members of the Legislative Assembly, recognizing the following principles:

"1. The assembly as a whole can represent the people of Ontario most effectively if its members have experience and knowledge in relation to many aspects of life in Ontario and if they can continue to be active in their own communities, whether in business, or the practice of a profession or otherwise....

"You have severed your business ties with the insurance industry; however, it is my opinion your experience

and knowledge will be of assistance to this committee and does not place you in a conflict of interest.

"For your information, I am enclosing a copy of Inquiry No. 27, Annual Report 1993-94, in which I made a recommendation to committee members. In your case, I would recommend you state for the record your history in the insurance industry at the commencement of the committee hearings."

Inquiry No. 27 is here. If you wish, I can read it or we can just file it.

The Chair: With the approval of the committee, we can file it.

Mr Bruce Crozier (Essex South): I too, although I don't have a letter from the Integrity Commissioner, should at least state that I was employed in the insurance industry as a registered insurance broker from 1990 through September 1994, at which time I advised the Registered Insurance Brokers of Ontario that I was no longer employed full-time in the insurance industry and withdrew my membership. So I have no interest in any brokerage firm, I no longer sell insurance and I would just state that for the record.

Ms Frances Lankin (Beaches-Woodbine): I just want the committee to know that I have no relationship to the insurance industry whatsoever; never have, probably never will.

Mr Rob Sampson (Mississauga West): Is there a reason why you're specifically telling us that?

The Chair: Do you hold any policies?

Mrs Marland: That's what I was going to say; I have all kinds of insurance.

MINISTRY OF FINANCE

The Chair: Thank you very much. There being no further business to bring before the committee, we will hear from Mr Sampson for, I believe, 30 minutes, which will be followed by 15 minutes of questions from the opposition and 15 minutes of questions from the third party. Mr Sampson, the floor is yours.

Mr Sampson: Good morning, Mr Chairman, members of the committee and ladies and gentlemen watching us today, either here or through the TV network. I must say, before we go ahead, when I was challenged with looking into auto insurance, one of the things I very quickly came to understand is that there are very few people who are not somehow connected with the insurance industry in this province, either as a consumer or somebody involved in the delivery of the program. So I am not surprised to hear the two statements of previous experience in the industry here at the table today.

It's a measure of this government's commitment to getting auto insurance to work for Ontario motorists that

this committee has been asked to hold hearings on draft legislation prior to the tabling of finalized legislation in the House. This process is relatively unique, but one that I felt was extremely important for this particular topic. Auto insurance, as we found just a few minutes ago, affects a number of Ontarians. In fact, it affects six million Ontarians and it's critical that we get it right this time when we look at reform of auto insurance.

I'm looking forward to hearing from people across Ontario on the proposals which are the result of work that began with my appointment as a parliamentary assistant to the Minister of Finance, for financial institutions, in July 1995.

What I would like to do today though is to identify the government's objectives in drafting the legislation, review the problems that it's intended to address, and provide an overview of proposals and the thinking behind them. First, let's talk about government objectives.

The government's overriding concern in developing its proposals for auto insurance reform has been to make the system work in the best interests of Ontarians. For too many years, auto insurance has been a political football in this province. There have been seemingly endless debates about tort versus no-fault compensation systems, the types, the levels of benefits, claims practices, responsibility for costs and so on.

In the midst of endless debates, the interests of consumers seem to have been lost or forgotten and rates have continued to rise. Auto insurance has been more complex and harder for drivers, accident victims and people in the industry alike to understand.

As tradeoffs were made between the right to sue and accident benefit levels, the fundamental questions seem to have been ignored: How much basic coverage do people need? How much can people afford to pay?

As we begin the process of examining the draft legislation, I ask you to keep in mind that the government's central objective has been to bring fairness and improved price stability to auto insurance.

We think we have been able to draw upon the key components of all submissions received, while at the same time delivering on a product that moves towards basic stable coverage for Ontarians. Where we believe we have missed the target, we will make the changes to get us back on track.

Last February, the Premier outlined five points that have guided our efforts to reform auto insurance. We are committed to:

- (1) Repealing Bill 164.
- (2) Setting weekly accident benefits at a reasonable level.
- (3) Allowing consumers to purchase top-up coverage so that they can customize their auto insurance.
- (4) Restoring the right to sue for significant economic loss above the benefits available to all insureds.
- (5) Modifying payments for rehabilitation and medical expenses to differentiate between serious and less serious injuries.

0940

The government's proposals incorporate the Premier's five points and address other issues, such as the need to avoid shifting new costs into the public purse while at the same time we are trying to reduce government spending.

Since taking office eight months ago, we have developed a proven track record of moving quickly to deliver on our promises. Auto insurance is no exception. In fact, it's a prime example of our commitment to deliver. The draft legislation which you have in front of you was released a year to the day after Premier Harris set out his five points for reform.

What are the problems with the current system? The new system we are proposing will be Ontario's fourth auto insurance product in six years. The product that we put in place this time must be lasting.

Let me explain why reforms are needed now. Let's talk about costs. The current auto insurance product is simply not affordable. In 1995, rates increased by double digits, after rising by roughly the same rate in 1994. Consumers cannot afford another round of such increases.

Why have auto insurance rates risen so dramatically over the past few years while inflation has been running at about 2%? The major factor has been increasing accident benefit costs and, within this context, rising medical and rehabilitation costs. Between 1990 and 1994 medical and rehabilitation costs alone rose an average of 30% each year.

Under Bill 164, almost everyone who is injured in an auto accident is entitled to generous benefits instead of being compensated for their actual losses. This concept of entitlement discourages people from returning to work and encourages fraud and abuse.

The high benefit levels also mean that there is no opportunity for people to tailor their coverage to reflect their individual circumstances. Everyone ends up paying high premiums for coverage that only a few need.

Previous rounds of auto insurance reform raised the level of no-fault benefits in the belief that this would help accident victims. The reality is that the current benefit levels are encouraging overpayment and improper treatment of accident victims. This does not speed up recovery and in some cases may actually be harmful to the people being treated.

For example, over 90% of the treatment programs submitted for independent review by a medical and rehabilitation assessment centre have been rejected. In a large number of these cases, the claimants were getting more than one type of treatment for the same type of injuries.

All of the parties in auto insurance are responsible for the situation that I am describing, including insurers who in many cases have not put in place proper claims management practices.

In Bill 164 there are simply too few mechanisms to ensure that the benefits paid out are reasonable and necessary.

Let's talk about the limitations on the right to sue. The current system is flawed because it unfairly restricts the right to sue. It takes from the innocent accident victim to pay the at-fault driver.

With no access to tort for economic loss under Bill 164, there is little opportunity to deter negligence or to tailor compensation to reflect real, in many cases, individual losses.

Relying on a no-fault schedule to compensate for economic loss makes it difficult to recognize the special circumstances of innocent accident victims. In particular,

self-employed people and young students who have not realized their full earning potential are not well served under a no-fault system.

Let's talk about the regulatory burden. One clear indication that auto insurance is not working well is the regulatory framework that has grown up around it. The procedures to resolve disputes about accident benefits and review auto insurance rates are simply too cumbersome. The regulatory framework adds to the cost of the system, and these extra costs are in turn passed to consumers in the form of higher insurance rates. Streamlining is needed.

I want to now talk about our reform proposals, which represent a welcome alternative to the current system.

The starting point is the repeal of Bill 164. We are proposing a new system that strikes a balance between access to the courts for the not-at-fault victim and base benefits available to all accident victims. This system combines the strengths of each in a package that will give motorists fair, balanced protection and long-term rate stability.

In the area of the right to sue, the draft legislation establishes the right to sue for significant economic loss in excess of all other benefits available to not-at-fault victims. Not-at-fault accident victims will have the right to sue for excess income loss suffered beginning seven days after an accident.

We have clearly stated that our policy intent is to allow recovery for significant economic loss as opposed to some limited definition of pecuniary loss. Recovery will be set at 85% of the net income level. This will take into account the work-related expenses accident victims no longer have when they are recovering under the plan.

For the not-at-fault victim, there will also be a right to sue for 100% of the expenses incurred for medical, rehabilitation and attendant care, housekeeping, and home maintenance expenses in excess of the no-fault limit.

Both forms of tort recovery, by the way, will be reduced by collateral sources and, as I said, the no-fault benefits to limit double compensation.

Approximately 60%-70% of accident victims are not at fault. Income losses and expenses for care are individual and difficult to assess using a fixed schedule. It makes sense that innocent accident victims have access to the courts to address their losses, especially where injuries are serious and the basic package of accident benefits may not particularly meet their needs. It makes sense that, as much as possible, we return the obligation to pay to the at-fault driver.

Along with the restored right to sue for economic loss, seriously injured accident victims will be able to sue for something called pain and suffering. The legislated test for pain and suffering will not change. A \$15,000 deductible will apply. The deductible and the legislated test are intended to reserve limited court time for those with the most serious injuries. Such a system will also ensure that maximum financial resources are available for those most severely injured.

One frequent criticism of the tort system is that it is slow to resolve disputes. Our proposals include several innovative mechanisms aimed at encouraging claimants and insurers to settle tort claims as soon as possible

before filing with the courts. Claimants are required to give early notice and a duty is imposed on insurers to quickly settle claims. This balanced system of obligations requires the parties to participate in mediation if one of them requests it.

The new accident benefits schedule: Our proposal also includes a new accident benefits schedule that is intended to provide a base level of protection for all consumers and, within that limit, to compensate people for their actual financial losses. Also, there will be new measures to reduce fraud.

Income replacement benefits: All income earners who are injured and unable to work will be eligible to receive up to 85% of their net income, to a maximum of \$400 a week. We have maintained the caregiver maximum limit at Bill 164's amount of \$250 a week. The benefit will compensate primary caregivers that are injured in an auto accident for caregiving expenses that they incur as a result of an accident. Everyone will have the option of buying additional coverage to meet their individual needs.

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A major innovation in the accident benefits schedule is the new procedure for claiming medical and rehabilitation benefits. This procedure is intended to ensure that accident victims receive only those goods and services that they need to truly recover. Claimants will be required to give their insurer a treatment plan prepared by the claimant's health practitioner. This treatment plan will outline the claimant's injuries and the proposed treatment. When no treatment plan is submitted before incurring a medical and rehabilitation expense, there will be no obligation for insurers to pay the claim.

The new accident benefits schedule delivers on the government's commitment to establish payments for medical and rehabilitation benefits so as to differentiate between serious and less serious injuries. People suffering catastrophic injuries will be able to receive up to \$1 million in no-fault medical and rehabilitation benefits, plus up to \$1 million in attendant care benefits. For people who do not have catastrophic injuries, our proposal would provide a no-fault medical and rehabilitation benefit up to \$75,000 in excess of the OHIP coverage. A separate attendant care benefit for up to two years' coverage and \$72,000 would also be available.

The benefit limits and the definition of catastrophic injury were designed after examining the costs of treating auto accident injuries. The goal is to ensure that accident victims get access to reasonable and necessary services to speed up their recovery.

Upward pressure on premiums should also be reduced. Insurers will have more control over the use of medical and rehabilitation benefits, and this will eliminate opportunities for fraud and fraudulent and inflated claims. Again, consumers will have the option of buying extra coverage to supplement the basic medical and rehabilitation package.

Designated assessment centres have also been looked at as part of our review. The accident benefits schedule we are proposing retains the use of independent assessment centres to provide neutral, third-party medical opinions if disputes arise about entitlement to benefits.

We have decided to keep the centres because we believe that their original purpose best serves the accident victim. However, we are also of the opinion that changes to who the centres are, what they do and a number of related items are needed to ensure that accident victims are properly attended to. We want to make the centres more effective to make sure that accident victims are able to quickly access the necessary no-fault benefits.

A new committee will be set up to select and monitor the assessment centres. The committee will be made up of consumers, insurers and health practitioners knowledgeable about the system and able to safeguard the integrity of the independent assessment process. One of the committee's main tasks will be to streamline the independent assessment framework and to work with health practitioners and the industry to ensure that the treatment plans that are used are reasonable and effective.

Our proposals include measures to streamline the process for resolving disputes between insurance companies and claimants concerning accident benefits.

The Ontario Insurance Commission's dispute resolution process will be changed to encourage early settlements. A neutral evaluation process will be introduced to offer the parties an opinion on the likely result of a court proceeding or the commission arbitration of their dispute. Also, the commission arbitrators will have the option of awarding costs to insurers as well as the injured party.

In addition, insurers and those insured are being given the opportunity of jointly referring a dispute to private arbitration, outside the commission process. The greater number of options for resolving disputes will allow people to choose a forum that meets their particular needs.

As I said earlier, one of the problems with the current system is that high no-fault benefits have led to more fraudulent claims, and the cost of fraud is borne by Ontarians, all Ontarians who abide by the law.

To combat fraud, three new offences will be created under the Insurance Act. Under the proposal, it will be an offence for claimants, health practitioners, auto body shops and others to knowingly make a false or misleading statement to advance an insurance claim.

The new accident benefits schedule will also reduce fraud by allowing insurers to request sworn statements and proof of identity from claimants, and allowing insurers to suspend accident benefit payments if there is wilful and material misrepresentation.

We have far too many uninsured drivers in Ontario and this means those who pay their premiums are absorbing the costs. Part of the problem is the penalty for driving without insurance, so we are proposing to double fines. But we also need to deal with how we can identify the uninsured driver more readily, and I will be working with the Ministry of Transportation and industry representatives to move quickly to a more real time exchange of data between the insurance industry and the ministry about who has valid insurance coverage.

One of our main priorities as a government is to eliminate the province's deficit so that the taxes of hardworking Ontarians can pay for the services they want and need, and not simply to service the \$100 billion in debt that's built up over the last number of years. In cer-

tain situations, where specific segments of society benefit from programs designed to meet their needs, we believe they should assist in meeting those associated costs.

The government's auto insurance proposals would allow the government to once again recover from insurers some of the costs that the public health care system incurs in caring for accident victims. The Ministry of Health estimates that it spends over \$100 million on hospital and ambulance services alone for auto accident victims. Auto insurers collect approximately \$5 billion a year in premiums, and I believe they should pay a portion of what the public sector spends on caring for those they insure.

The draft legislation includes many proposals that will alter the nature of the auto insurance product available to the public. There are also new provisions to simplify the rate review process. The changes are intended to reduce the costly regulatory burden that is ultimately passed on to consumers in the form of higher premiums.

Insurers will be able to make a simplified rate filing if they meet certain criteria. Companies whose rate filings do not meet the criteria will be subject to a more stringent approval process, and some insurers will face the reality of having to justify their price increases in public hearings.

In the next several weeks, the government wants to hear from the public and the insurance industry, and all the stakeholders in the auto insurance industry, on a number of non-product issues.

One of these is the possibility of broadening the use of rating variables such as collateral benefits and income. We are also interested in views as to whether it would be feasible to introduce rating variables for retirees as part of our final legislative plan. We need to understand clearly the dynamics of the system before we make changes in those areas because they would have an impact on everyone's premiums. If the concepts make sense, we will act.

In addition, the government would like to hear suggestions for reform of the Facility Association and the risk point system. We'll be looking closely at these issues and I'm hopeful that we'll be able to recommend some changes in this area. The bottom line, though, is that any reforms must benefit consumers.

It is our belief that the government's proposals for product reform will help address some of the problems that consumers have been having in buying auto insurance. By making the product more attractive, we believe that we will see a willingness on the part of the industry to aggressively market auto insurance in this province, something we haven't seen for a couple of years.

The government is serious about reforming auto insurance to make it work in the interests of Ontario motorists. Our goal is to ensure that the auto insurance system reflects the principles of fair, basic protection, and long-term rate stability. The draft legislation strikes a balance, extending the right to sue for economic losses while at the same time providing a basic package of no-fault benefits and the opportunity to customize benefit levels.

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The government realizes that legislative changes alone will not be enough to deal with the long-standing prob-

lems of auto insurance. The system has a large compensation pool and all stakeholders will have to contribute if solutions are to be found. Insurers will have to take direct steps to improve their claim management practices. Consumers, the legal profession and service providers will have to act responsibly in claiming the compensation auto insurance provides. In short, everyone will have to work at controlling auto insurance costs.

We've promised to introduce auto insurance legislation in the House in the spring session. I'm hopeful that this committee's work in the next two weeks of public hearings will set the stage for introducing a bill that meets the needs of consumers across the province.

The Chair: Thank you, Mr Sampson. Before moving to questions, I've been asked to announce that room 228 has been set up as an overflow room for the public. There is television coverage in that room, and it is in the west side of the building on the second floor.

Mr Peter Kormos (Welland-Thorold): Please, Chair, on a point of order: I should indicate to you that I'm not a member of this committee but I am, pursuant to the standing orders, exercising my right to be present today. I will be monitoring the committee through the course of this week and next, and I appreciate your accommodation of me.

The Chair: Thank you very much.

Mr Kormos: You're welcome.

The Chair: We move to questions now from the opposition.

Mr Crozier: Prior to any questions, I would also like to make a short statement. Ladies and gentlemen, in comments made recently regarding the draft legislation, Mr Sampson said: "My instructions were very clear: Deliver on our commitment for a fairer and more efficient auto insurance system that brings improved stability to rates, something that most consumers in Ontario have not seen for some time."

I'd like to point out that under the Ontario motorist protection plan introduced in 1990 auto insurance costs did decrease significantly. In fact costs decreased in the years 1990 and 1991. They increased somewhat in 1992 and 1993 but were still substantially below the years 1987 through 1989. It was only after the introduction of Bill 164 in 1994 that auto insurance rates began to skyrocket. Auto insurance premiums rose by 10.6% in 1994 and by 11.3% as of September 1995.

We've heard mention of rate stability. We too are interested in achieving rate stability. However, we are advised that this draft bill will result in a continued steady increase in rates, albeit they may be in the higher single-digit range rather than double-digit. We will be most interested in the legislation's intention to assess insurers for some health care costs arising from accident victims. Although the government has not fully defined its intention in this area, we understand it could add 2% to the cost of auto insurance today. As a matter of fact, this cost has been termed a tax by the Canadian Bar Association—Ontario.

In any event, we will be listening to the discussion as to whether this will be a recovery of actual costs or a fee based on premium. The government has suggested that the committee merely prepare a summary of representa-

tions made and that this summary be sent to the Minister of Finance. It is our position that the committee should review all submissions with the objective of presenting and recommending to the Minister of Finance changes in the draft legislation.

Mr Sampson has mentioned the Facility Association and I'm pleased to hear that, because we have to review the access to standard insurance. This has been under some debate recently and, although this is not part of the act, I hope that we will have some discussion in this area and that areas like gaps in coverage would certainly be of concern.

In conclusion, our foremost concern, that of the Liberal caucus, for any new auto insurance legislation is balance. Any changes to the automobile insurance system must not only address the concerns of the industry, but more important, must ensure that consumers have affordable coverage, independent brokers have a level playing field and victims of automobile accidents have sufficient and fair recourse.

This bill appears to be a step in the right direction since the disastrous Bill 164 sent premiums soaring. We welcome the fact that the government is releasing a draft bill with public hearings. Let's hope that the government will listen to the recommendations that come from these hearings. We look forward to participating in this all-party committee and are hopeful that this time the government and the opposition can work together to give Ontarians a system that is both affordable and fair.

I think my colleague has some questions.

Mr Monte Kwinter (Wilson Heights): I am delighted to be participating in this exercise. I have a long and memorable career dealing with auto insurance as a minister in the late 1980s, and I think we all agree that we are anxious to get some resolution so that we can provide an environment for fair and equitable insurance.

I have some concerns and I'd like to ask Mr Sampson about a couple of them. One, in your statement you talk about the current auto insurance product simply not being affordable. It seems to me, from hearing your proposal, that you're not going to make it any more affordable, you're just going to prevent it from getting less and less affordable. How do you reconcile that with the fact that you're saying it is simply not affordable?

If you take a look at the bodily injury and accident benefits combined, after an initial dip in 1996, that is going to go up rather dramatically. So in fact we are not going to see more affordable insurance, we're just going to see a different component and a different structure in the insurance.

Mr Sampson: The question of affordability talks to a couple of points. I think the cost escalation information you're speaking to is something that the industry will be presenting shortly when it presents its actuarial results, and we have not completed our review of those actuarial results. I'm not convinced that in doing the actuarial assessment—and you've got to understand what actuaries do when they assess one of these products. They take a look at previous patterns and they try to see how those previous patterns may or may not be repeated going forward.

I'm not convinced that the actuarial assessment has really given full credit to the designated assessment centre committee and the new role we see for what we'll be calling DACs, I guess, from now on—because the words “designated assessment centre” are hard to spit out three or four times—the new role we see for the DAC committee going forward and helping to control costs. That's one of the difficult things the actuaries may have been struggling with as they took a look at price projections going forward.

But on the affordability side, the comment there is really as it relates to whether or not it's fair for certain groups of individuals to be paying for the gold-plated benefits that are available under 164. The problem with a full no-fault system is that everybody pays, to all intents and purposes, the kind of average cost—it doesn't exactly work out that way, but the average cost of the gold-plated no-fault plan. We had seniors coming to us and saying, “Why am I paying for potentially up to \$1,000 net a week when that's nowhere near the income loss if I have one as a result of an accident?” So the affordability question really is driving at “Let's try to create a base plan that covers the average Ontarian.”

For those who are earning more or those who have different circumstances other than the average Ontarian, then go out, like you do for any other plan—RRSPs, life insurance, home insurance, basically every other financial plan—and customize it to suit yourself, to suit your financial needs.

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Mr Kwinter: When you talk about the medical and rehabilitation benefits, you say that a claimant will be required to give their insurer a treatment plan prepared by the claimant's health practitioner, and if there's no plan submitted, they will not be obligated to honour the claim. The concern I have is, what happens if they give a plan? Are you saying that the insurer can second-guess the doctor and say, “I don't like your plan and we're going to tell you what you do for your patient,” or is it just if there's no plan, there's no obligation?

Mr Sampson: It didn't make sense to us that claimants were receiving medical treatment without having a road map as to where that treatment was taking the claimant. It didn't make sense to us that one would start with a treatment program without knowing what the expected outcome of the treatment plan was, for the benefit of the claimant and for the benefit of the insurer.

Mr Kwinter: I have no problem with that. I'm asking you, though, is it the intent that as long as the insurer knows what the road plan is there's no problem, whereas if they don't have the road plan they're not obligated? My concern is, what happens if the insurer doesn't like the road plan? Are they in a position to say, “Sorry, we are not going to approve that particular plan”?

Mr Sampson: Under the proposal, the filing of the treatment plan will allow the claimant access to the 15 medical rehabilitation sections of the act, basically 15 visits or six weeks, whichever comes first. That's triggered based upon the filing of the plan. Thereafter, if there's some dispute as to whether the plan is effective or not, ie, the insurance company is having some difficulty with whether the plan is going to treat the injury, then the

designated assessment centre will be used to resolve disputes between the insured and the insurer. But we believed that it was far more fundamental to have these plans established.

By the way, the DAC committee, I think, since it's going to involve a committee of insurers, insured and health practitioners, will be more actively involved in determining what appropriate treatment is for various types of injury. That's something we have not had in this province. It has happened in other provinces, but in this province we don't have the research that tells us what the expected outcome and what the appropriate treatment plan is for various soft-tissue injuries, and I think the sooner we get there the better it will be for both parties, the insured and the insurer.

Mr Kwinter: I'd like to talk to you about the Facility Association. You allude to the fact that you're looking for suggestions, but you have come up with none. My concern is that a lot of the attention on the Facility Association is addressed at those drivers who are referred to the Facility because of their accident record, because of their history.

My concern is that a lot of drivers get referred to the Facility Association for no cause of their own but because of the particular broker they're dealing with and that insurers will not take business from those particular brokers and, as a result, some people get shifted into the Facility for no cause. They don't know about it. They just assume that, for whatever reason, that's where they're going. Can you assure me that in your deliberations and in your looking at the Facility, you'll look at that aspect and not just the drivers that are referred to it?

Mr Sampson: First of all, I think it's clear, for those listening and watching today who don't know what the Facility Association is, that's essentially the industry's mechanism to deal with the higher-risk driver, so to speak, and how that higher-risk driver gets access to insurance. What we have now is a compulsory auto insurance product. Everyone must have auto insurance.

We did not look at specific reforms to Facility and we have not tabled them because we felt it was important to solve the fundamental product misdesign before you decided how that impacted and how one was going to deal with the residual market. You've got to solve the product first, put the cart before the horse, if I may, and so that's what we've done.

We've tabled what we think is a redesigned package that helps us deal with some of the fundamental flaws in 164, and then that will allow us to deal with the related issues, many related issues, one of which is how one properly assesses and deals with the higher-risk driver. It's important, I think, for people to know that the rules that place one in Facility are not those of the government but those of the industry, which has tried to come to grips with how one identifies that—how can I say—grey market between the good driver and the bad driver.

It's clear to me that we will have to make some changes to that grey market area. We will have to make sure that the person who, for instance, went away for two years to Germany for a job and then came back isn't improperly put into that risk pool that represents the high-risk driver pool, but his or her driving record for the 30

years prior to their trip to Germany is reflected in their premium level. That's what I'm hoping to hear from the committee process and the deputants that come forward. Now that we've got, we think, the product properly redesigned, how do we deal with, as I said, all the other issues related to auto insurance, one of them being the appropriate classification of the high risk and the pricing of the high risk.

Ms Lankin: I'm going to move straight into questions because I have a number of them that I would like to pursue with Mr Sampson. I know that my colleague Mr Silipo has a couple and Mr Kormos may as well. So I'll try and move through them fairly quickly and I'll disperse with an opening statement.

I'm interested, Mr Sampson, you've said you've spent most of your time thus far on work developing the new product and that some of these other issues will be dealt with as we proceed over the next couple of weeks. In the development of that new product, we know that for the average driver who becomes injured through an accident there is a dramatic reduction in the benefits that will be available, and yet it's interesting, in all of the public statements that you've made so far, you haven't talked about any decrease in premium rates to drivers. I'm wondering, when you're cutting the benefits so much, can you tell me why there won't actually be a decrease in premiums?

Mr Sampson: As you know, one of the dilemmas of this industry is it's a balance between what one has via the access to the court system to solve the costs associated with claims, and what one gets as a result of a base level of benefits payable to all insureds regardless of fault.

You're right, we did take down the maximum levels available to all insureds, regardless of fault, to reflect the establishment of a base plan. But in addition to that, we also significantly added access to the court system for the not-at-fault driver to claim for economic loss and medical and rehabilitation expenses over the base amount.

So while we took from one area, and it certainly reduced the underwriting costs associated with that area, we gave effectively all, if not a significant portion of that, to the tort system. Currently, under 164, one cannot sue with the exception of the category of pain and suffering, period, full stop. Right now, under this particular plan, there are three avenues, including pain and suffering.

Ms Lankin: So basically your answer is that the value of the package is the same, that's why there's not going to be a decrease in rates?

Mr Sampson: I think you're going to hear some comments later, throughout the day, that we have made changes to the underwriting costs, so to speak, or the loss costs associated with this base product, and those are different than the current 164.

Ms Lankin: I've got a lot of questions, Mr Sampson. Can you try and get to the point on the answer to that? Is it basically because the cost is the same, you've just shifted things around inside, that's why there will be no reduction in the premium rates?

Mr Sampson: The loss costs under this program are less than 164.

Ms Lankin: Okay. So why won't there be a reduction in the premium rates, then?

Mr Sampson: There may be. It's not up to me to set rate levels and premium levels, otherwise we would have done what I think Mr Kormos would have liked us to do, which was get into public auto. We're not in the business of setting insurance rates. It's the industry who will set the insurance rates.

Ms Lankin: But you have said that in the work you have done, you expect there will be price stability.

Mr Sampson: Right.

Ms Lankin: So in fact, you are designing a package to affect the rates one way or another. Let me move on. Maybe I'll save those questions for some of the people coming forward today.

You expect there will be now, as a result of this product design, price stability.

Mr Sampson: Yes.

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Ms Lankin: What's your definition of "stability?"

Mr Sampson: I'd like to see effectively no increases, but the fact of the matter is, in the scheme of things in auto insurance, the fact that you're dealing with very significant medical expenses, that doesn't usually happen. What happens is, new treatment levels come, new types of treatment, new equipment—

Ms Lankin: What do you expect your new product design will produce in terms of price stability? Will it be a 1% to 2% increase a year; is that price stability?

Mr Sampson: Yes, we struggled with what the measuring stick would be, and you'll see a reference to a measuring stick in the legislation that tries to gear off the CPI. I'm not exactly sure that the consumer price index accurately reflects the increased costs in medical expenses. There doesn't seem to be a strong correlation between the two because of what I said earlier: There are changes in treatment plans and types of equipment used for various treatments that add costs but improve the treatment levels in the system, and so we have to be prepared to accept those increases as given, almost.

Ms Lankin: And yet you've said that was one of the major problem areas in terms of driving costs up in the system—

Mr Sampson: Yes, but not at 30%.

Ms Lankin: —and that's an area that the DACs and other sorts of things are going to be controlling, and you say we should expect results from that. You did say in your presentation that some of these other areas you haven't had a chance to look into yet; you need to understand clearly the dynamics of the system before you make changes because they would have an impact on everyone's premiums, and I'm assuming, in designing this new product, you understood fully what the impact would be on premiums. For example, before you released this draft legislation and this design product, did you look at actuarial studies of what it would do to the premium rates?

Mr Sampson: We took the position that once this product was redesigned, it wasn't the government that was going to be selling it, it was the industry. So we were more concerned about where the industry felt this particular product design was taking them with respect to loss costs and other associated costs of delivery. So we didn't do a full actuarial study prior to releasing this particular document. We had a sense, based upon other

actuarial work that was done for prior plans, as to where some of these components would take us.

Ms Lankin: And that was basically price stability, the zero to 1%—

Mr Sampson: Yes, but as I said earlier, our view is it's the industry that's delivering the product; I want to hear from the industry where they think the costs are and where the—

Ms Lankin: I understand the industry has in fact done some actuarial studies of this product and that information has been shared with you over the course of the last week. Could you tell us, what does the industry project with respect to rates over the next few years?

Mr Sampson: As I said in my opening comments, we did see something late last week. We've not had a chance to fully analyse what they have analysed from our presentation. Their preliminary indication is that there'll be rate increases in the single digits; I think 7% to 8% was the number I heard from them. To me, that doesn't reflect their understanding of where we believe the control levers we've given in the medical and rehabilitation side are. I'm not exactly convinced—

Ms Lankin: So the industry's analysis says rates are going to continue to go up, perhaps not at 10% or 11% a year but at 7% or 8% a year. What I want to know, Mr Sampson, is, if the industry, when all of the analysis is done and all the checks and balances and you've worked through it, if they're right and that's what they say it's going to do to rates, does that meet your definition of price stability? Will this bill have succeeded at that point?

Mr Sampson: No, I think we've got some more work to do if that's their final answer as to where the costs are going. As I also stated in my opening comments, we've brought this forward in draft legislation because we're not expecting we'll get it perfect right off the bat. So if the industry is saying, "You might have got half of the answer but not all of it," let's hear what the comments are—from the industry and the other people who are presenting to us, not just the industry—as to where those additional levers should be.

Ms Lankin: Do you know whether or not the industry's actuarial studies include such things as the new 2% tax that you're reintroducing, the OHIP subrogation that will be passed on to consumers? Does their actuarial study include that, do you know?

Mr Sampson: I don't know that answer. I don't know whether they have included it or not, since we had not finished our analysis of where they got their costings from—

Ms Lankin: My understanding is that it doesn't. Do you know whether their actuarial study includes any transition costs of moving from one system to another and the dual administrations that are there? There are certainly transition costs involved in that.

Mr Sampson: Yes, I don't know whether those costs or benefits have been put in the system, as there are clearly some benefits associated with transitioning from 164, because 164 is an extremely costly product. But again, we've—

Ms Lankin: Well, presumably, the—

Mr Sampson: If I can just finish my answer, we've not outlined what the transition items are, because we

didn't know until we brought this package forward—in fact, we don't know until we're finished this process—what we're transitioning to. So it seems to me to be somewhat premature to start to analyse what the transition would be until one knows where one's going.

Ms Lankin: I think there's a reasonable basis to that comment. What I would suggest is we pursue with representatives from the industry and others who are commenting on this over the next couple of weeks whether or not this bill that you've brought forward actually accomplishes what you want to accomplish. It seems to me from the information we've reviewed so far that prices will continue to rise at a level that is nowhere near what you've defined as price stability.

The majority of what will drive that cost will be a combination of a reintroduction of tort and the problems that exist within the medical rehab system, which I would argue simply putting a cap on of \$75,000 doesn't fix the problem. The problem is inside the administration of the system, the gatekeeper, the access to the services, the planning of treatment. I think the treatment plan is a useful first step, but you're not getting at the actual problem that needs to be gotten at. The \$75,000 cap unfortunately just means that those people who have injuries that are beyond that, and who require medical rehab treatment beyond that, are going to be out of luck with respect to those injuries they are in treatment for.

We are going to spend considerable amounts of money in court trying to get a legal definition of what is a catastrophic injury, as people try to push beyond to get the kind of treatment they need.

Mr Sampson: Well, I—

Ms Lankin: At this point, I'm making a bit of a statement, so I'll get you to wait.

Mr Sampson: That sounds familiar.

Ms Lankin: I think what we'll need to examine is whether or not your bill, as you bring it forward, actually fixes the problems that were still remaining to be fixed after Bill 164. We will fully admit that there was a task force set up, and work needed to be done within the medical rehab area, but it should be done, we believe, in a way that provides a level of benefits that is fair to people. What you've done here, with the caps you've put on benefits, is reintroduced unfairness to the accident victim and provided a cushion, in a sense, for the insurance industry to move from what the rates are that they are paying now, or the premiums that they are charging now, to an ever-increasing premium. It won't produce the stability that you're looking for.

I want to turn it over to Mr Silipo now who has some questions as well.

Mr Tony Silipo (Dovercourt): Mr Sampson, I too want to focus in on this question of costs to the consumer, because it seems to me when you say that the overriding concern of your government is to develop proposals that make the system work in the interests of Ontario motorists, presumably you would agree with us, that means ensuring that, first of all, we have rates that are reasonable and, at the same time, we have a system that protects people in the event of an accident.

When I look at what you've done in this proposed legislation, you have reduced the amount of benefits—if

you compare that to what the average Ontarian in terms of average income would need to be able to supplement their income if they were involved in an accident. That means that in order for people to get the level of coverage they would feel comfortable with, they would have to automatically increase beyond the basic limit of the \$400 a week, which presumably means it's going to cost them more.

I don't understand how I would explain to a typical resident in my area, in my riding, why this particular product that you've got here on the table through this bill, coupled with the rates that will come—I appreciate that you're saying this is draft legislation, but I also think it's incumbent upon you to be clear about what you think this is going to do to rates. I'll be interested very much in what the insurance companies have to say on that, because I think from the consumer's perspective, it's really to be seen from those two perspectives as to whether what we've got here is a better product than the existing one. I can't tell, as a result of this, the average resident of my riding that they're going to be paying less. In fact, I'm probably going to have to tell them that they're going to be paying more and getting less coverage than they're getting now.

1030

Mr Sampson: You've got to realize that as you go up the income categories to the individual who might be earning \$1,000 net, associated with generally most of those positions—not all, but most of them—is a significant program of collateral benefits, benefits that would be available from other sources of coverage as a result of their employment, and yet we were asking all Ontarians to pay for those high caps.

It didn't make any sense, so it was necessary for us to bring the benefit levels—the caps, anyway—down for two reasons: firstly, to reflect what an average Ontarian might need in the absence of any other collateral sources, any other benefit sources, and then allow that individual the ability to customize. If somebody has a significant collateral benefit program, there would be no need for them to add to the income level. Why would they? They'd be double paying—like they're doing now.

We'll hear the industry's presentation with respect to its actuarial assessment. As I said in my presentation, I'm not clear, based upon our very preliminary review of their analysis, that they have properly costed the toolbox, if I can, that we've provided the industry and the stakeholders to properly deal with what have been rather dramatic increases in medical and rehabilitation expenses in the last couple of years.

Mr Kormos: If I may, Chair, very quickly—thank you, Mr Sampson—so you've not only reduced the cap but you've reduced the weekly payment to 85% of net from 90% of net, and you've again—and granted there's been a whole lot of good precedent about the legerdemain that's involved in talking about tort, because you know that the big-ticket item for a victim is not the pain and suffering, nor is that the big-ticket item for an insurer, it's the income loss.

The fact is that all you've done by restricting recovery of excess economic loss to 85% of net is transformed what was a no-fault benefit into something that's going

to be pursued only on behalf of innocent accident victims. The fact is there is no real tort recovery here for economic loss because there's no consideration of anticipated future loss, and you know that's the big-ticket item. That's the big loss to the youngster, for instance, who has great potential and the capacity to have earned a decent living, to be denied that by virtue of not having access to tort.

Mr Sampson: Well, that's not exactly correct, actually.

Mr Kormos: Why do you talk about access to tort when really there isn't any meaningful access to tort?

Mr Sampson: Because there is a meaningful access to tort. If you look at the legislation, the legislation indicates that there'll be a definition with respect to economic loss to be determined in regulations. That regulation has not been set yet, but it's our policy intent not to limit the economic recoveries that one would normally get via the court system. In fact, my understanding is that the model we were particularly interested in following with respect to recovery levels draws upon the traditional awards that a court might award, as opposed to being any limited number.

Mr Kormos: Is the government committing now—

The Chair: Your time has expired, Mr Kormos.

Mr Kormos: —to ensuring that they'll be recovered for anticipated economic loss?

The Chair: Our time has expired for question period.

Mr Kormos: He had time to answer, Chair.

Ms Lankin: It's easy to answer yes or no.

Mr Kormos: Come on, Bob.

Mr Sampson: From me, a yes-or-no answer?

Mrs Marland: Mr Chairman, I'm wondering if we can do something gracious to help the public. We've got a situation where this is a very important matter. We obviously have a great deal of interest, and I see at least 10 people standing, so I'm wondering if during the morning we could arrange through the clerk to have some more chairs brought in, if necessary move the deputation desk up a little, to allow for another row.

The Chair: I understand that we have opened room 228. Additional chairs are not permitted under the fire regulations and the maximum capacity of the room is those seatings. We haven't mentioned about the people standing, and I can't see that far without my glasses.

Mrs Marland: Well, we used to have an extra row when the desk was further forward, before this side became so long.

INSURANCE BUREAU OF CANADA

The Chair: If we could move to the Insurance Bureau of Canada. I understand that we have an hour together, gentlemen. You have a presentation to make and then perhaps we can move to questions, which will be divided between the three parties. Could you identify yourself for Hansard, please, and proceed at your convenience.

Mr Stan Griffin: Good morning, Mr Chair and members of the committee. It's a pleasure to be here. Let me first apologize for a bit of huskiness this morning. I've been fighting off a cold for the last couple of days.

My name is Stan Griffin and I am vice-president, Ontario, at the Insurance Bureau of Canada. With me

today are George Cooke, on my left, who is chair of Insurance Bureau of Canada's Ontario committee and president and CEO of the Dominion of Canada General Insurance Co. To my right is Andrew Rogacki, who is chair of IBC's financial affairs committee and president of Progressive Casualty Insurance Co. Both Mr Cooke and Mr Rogacki serve as directors of the Insurance Bureau of Canada. Also with us this morning is Ronald R. Miller, of Exactor Insurance Services Inc, an actuarial consulting firm.

I would point out at this stage that you should have three documents: a copy of our overview written submission that I will be going through; a set of supplements to the verbal description that I will be referring to later on; and finally, a bound copy of a number of detailed recommendations and comments, including the full actuarial report.

Insurance Bureau of Canada is the major industry trade association representing private property and casualty insurance companies operating in Canada. Our membership includes more than 125 companies and groups that underwrite more than 80% of the total private insurance business in Canada. You will find a fuller, detailed description of Insurance Bureau of Canada in appendix B of the appendices. You will also find copies of our biographies in appendix A.

Insurance Bureau of Canada congratulates the government for recognizing when in opposition and early in its term that the auto insurance system in place in Ontario since 1994 is broken and for bringing forward a proposal to start the reform process. We think this new product will go a long way towards stabilizing the price of auto insurance. It is a good first step, and with amendments it can be made even better. This is a very key point. The true test of the government's ability and resolve to address the problems of auto insurance will come not today, as many expect. Rather, it is our opinion it will come weeks from now, when it takes the advice offered over the next two weeks and uses it to finalize legislation. Let me just say I was heartened to hear Mr Sampson in his opening remarks say, "Where we have missed the target, we will make change to get us back on track."

Turning to the present system, the system of auto insurance introduced by the previous government under Bill 164 has proven to be too costly and complicated for consumers. Over the past two years, premiums have increased on average by 11% and 12%. Insurance Bureau of Canada's consumer information centre takes more than 3,000 calls per month from people across the province, and the most frequent request made by those people phoning in is for an explanation of the benefits available to them under the auto insurance policy. People do not understand how the current system works, and generally they feel they are paying far too much for it.

At the same time, Bill 164 has allowed fraud to increase and introduced overcompensation and waste throughout the system. The availability of the richest set of benefits in North America for injuries sustained in an auto accident regardless of fault has encouraged this. In particular, the inefficient use of insurance premium dollars to fund appropriate medical and rehabilitation treatments has been a problem. While the overall cost of

insurance claims was increasing in the order of 8%, the cost of claims under the medical and rehabilitation coverages was increasing by more than 25%.

Perhaps the basic flaw in the Bill 164 system is that it moved away from the insurance principle of indemnification towards a system of entitlement. The insurance principle of indemnity is to return the claimant to the same position they were in before the accident, to the extent that money can, no better and no worse. Under Bill 164, compensation has very little to do with the actual loss. If the claimant fits any one of the complex myriad categories at the time of the accident, the allotted benefits, or entitlements, flow automatically regardless of the actual loss or need.

Recognizing the shortfalls of Bill 164 early, the insurance industry worked to design a new auto insurance system to replace it at the appropriate time. A technical working group was formed early in 1994 comprised of senior industry technicians from a wide range of companies. This working group set out to design an insurance system that would provide price stability over the long term, be affordable and understandable to consumers, easier to administer for insurers and brokers, reduce fraud, overcompensation and waste, and recognize an individual's loss in determining compensation, that is, return the concept of indemnity to the insurance system.

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The system eventually became known as OMEGA, a very awkward acronym that stood for the Ontario Motorists insurance plan for Economic loss, General damages and Additional optional benefits. OMEGA attempted to balance three important elements: first, reasonable benefits available to all accident victims regardless of fault; second, access to the courts for innocent accident victims to recover any shortfall in their economic loss provided through those benefits; and third, compensation for pain and suffering for the seriously injured. Costs under the OMEGA proposal are greatly reduced in comparison with Bill 164, largely because of the claims controls in place to discourage fraud, overcompensation and waste.

In general, the government's proposal for replacing Bill 164 has design objectives similar to OMEGA.

Mr Sampson has outlined the government's draft proposals this morning. We observe differences from OMEGA in detail. We have taken care in reviewing the draft legislation and regulations and have comments to offer now and in the future as the government's proposal evolves further. We would like to take a few moments now to review the actuarial costing of the government's proposal.

It must be recognized at the outset that there is a great deal of uncertainty when forecasting any new, and completely new, auto insurance system. Reasonable people can and are likely to disagree on some costing issues. In this particular case, there is also some confusion as to whether the proposed legislation and regulation reflect the government's stated intent and how it will actually work.

Having said that, the industry asked Ron Miller of Exactor Insurance Services Inc to prepare a costing. He has built and maintains an extensive actuarial model relating to Ontario automobile insurance which provides

him with the ability to perform the most sophisticated analysis available. Ron Miller has been preparing such costing estimates for several years and his forecasts have a considerable track record of unfolding accurately.

The two main points of interest to the industry and consumers are the immediate cost impact of such changes and, second, the long-term rate of change.

With regard to immediate costs, the government's proposal is significantly less costly than Bill 164. The expected adequate average required premium is estimated to decrease by 18%. This estimate takes into account the total average premium package, including not only the compulsory accident benefits and liability coverages but also the optional collision and other vehicle coverages. Those policies not including these optional physical damage coverages would see a greater decrease.

Let's turn to the longer-term rate of change, which actuaries refer to and call trend. This is a forecast of how required premium is likely to change in the future. We note a trend of 7% to 8% for the government's proposal and 11% to 15% for Bill 164.

If you turn to the supplements to my remarks, the first chart shows the average cost of the government's proposal on July 1, 1996, estimated at \$1,140.36. This number should be compared to a Bill 164 cost, in the right-hand column, of \$1,390.76. You can readily see the trend of each over the next five years: the government's plan at \$1,631.26 and Bill 164 at \$2,566.23 by the policy year 2001.

These forecasts are driven by projections of the costs that are paid by auto insurance premiums. For the most part, these include car repairs, lost income, medical expense and damage awards through the courts. It is important to realize that virtually none of these costs are related to the consumer price index. We have attached graphs displaying the components of the CPI and of auto insurance claims.

If you flip to the next chart, you will see the breakdown of the major components reflected in the consumer price index for Ontario, well over 50% being composed of shelter and food, another 10% for household operations, 6.5% for clothing. Auto insurance itself is reflected in the CPI as a mere 3.4%. The point is that there are few items in the CPI in which we actually replace as a result of an auto accident.

If you flip to the second page, we have shown here the long-term rate of change in the consumer price index, being the line that's kind of steady through the centre, and the rate of change of Ontario auto premiums, which is the one that looks like the Grand Canyon or the New York City skyline. I should point out that on the scale, the annual percentage change reads 0.1%; those should be 10%, 20%, 30% and 40%. Again, there is little if any connection between the two.

The next two graphs show the actual breakdown of the total claim costs as paid for by auto insurance. If you look at the first chart, the accident benefits portion, which is that portion that pays for lost income, medical payments, those kinds of things, represents almost 50% of the total claims payout. About another third, I would guess, by the time you combine collision, comprehensive

and a portion of the third-party liability for property damage, is going off to pay for damage to vehicles.

The next chart breaks down further the components of the accident benefits portion of the claims. The overwhelming evidence here is that, of the total accident benefits claims, medical and rehabilitation costs represent 59% of those total claims.

The final two graphs you have in this package show the actual history of the discounted loss costs from 1984 to 1994, and the projections for Bill 164 and the government's proposal to the year 2001. The full actuarial costing is included in appendix F of the bound appendices.

The government's release of its proposed legislation 10 days ago included a draft bill to replace Bill 164, and a draft accident benefits schedule setting out the benefits available regardless of fault. While we applaud this effort as a vast improvement over the current system, we believe there are opportunities for improvement which are consistent with Mr Sampson's objective for reform that would help reduce costs and further stabilize the product.

With control features similar to OMEGA, outlined in detail in our appendices, required premium at July 1, 1996, can be reduced by up to \$100 in the government's proposal and the trend by approximately one trend point.

Turning to the actual draft bill and the accident benefit schedule, with regard to the bill, we have identified 11 areas where we suggest certainty and stability in the system would be enhanced by additional regulations. These are set out in appendix C. IBC is ready to assist the government in developing these regulations. Appendix C also sets out a section-by-section review of the draft bill, with issues and recommendations for improvement.

Turning to the draft accident benefit schedule, while the draft accident benefit schedule is greatly improved, the breadth of the schedule continues to anticipate every claimant's personal situation. Our experience has demonstrated that this is impossible. What is required is flexible yet informed judgement of individual circumstances rather than the reliance on rigid categories and classifications. A comprehensive list of issues relating to the accident benefit schedule, along with recommended solutions, is contained in appendix D.

While the government has taken the lead in proposing a new insurance product, we would like to offer commentary on a number of other related issues which will either impact upon or should be incorporated into the introduction of the new system.

First, rating variables in group insurance. Insurers must be allowed to collect underwriting information relating to collateral or other benefits, income and occupation. Presently, only group auto insurance plans are allowed to take into consideration these underwriting variables in assessing risk.

Without access to this information, those writing individual risks will continue to face undue discrimination. IBC advocates a level playing field in this matter. The application of these rating factors should be available in the underwriting of all auto insurance policies.

Second, streamline the Ontario Insurance Commission. Regulation of the insurance industry in Ontario is carried out by the Ontario Insurance Commission and paid for by

the insurance industry. The costs of operating the OIC are funded by insurers operating in the province and ultimately are reflected in the costs of premiums for consumers. In its first year of operation, 1990-91, the OIC operating budget was \$13.7 million. The 1993-94 budget was more than \$19.4 million, an increase of 42%. In that year, costs to the insurers were \$15.4 million.

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We believe that many functions of the OIC could be eliminated, transferred to the federal government or outsourced to the private sector. This would reduce regulatory costs to insurers and administrative costs to the government. These costs are ultimately passed on to the motorists.

We recommend, among other things, the following: first, that solvency monitoring be transferred to the federal government; second, that the motor vehicle accident claims fund be privatized; and third, that the OIC's alternative dispute resolution or ADR services should not be granted its current monopoly. Other examples are contained in appendix E(2).

Third, conflict of interest. Put simply, our industry wants to make sure that our consumers' dollars are well spent. This is a particular concern when it comes to funding effective medical treatment and rehabilitation of our claimants. According to a recent study conducted by the Institute for Work and Health here in Ontario, auto insurers are second only to the Minister of Health in what we pay for rehabilitation services. The report estimates that auto insurers paid more than \$300 million for rehabilitation in 1993 and almost \$187 million in the first six months of 1994.

The industry is concerned that these dollars are not being spent efficiently and effectively to achieve the goal of returning injured victims to their pre-accident status quickly. It is our industry's perception that there are many unnecessary medical treatments being provided and that the system is full of conflicts of interest involving health care providers, the legal community and others.

We see the need for a system of accreditation of rehabilitation providers based on outcomes, greater use of treatment guidelines, tighter controls on self-referral and conflict of interest, and the ability of insurers to direct medical and rehabilitation care to those who show proven results.

The Facility Association. Bill 164 has resulted in a shrinking market for high-risk drivers in this province. A proposal to reform the Facility Association, the "Take all comers" rule and the insurance risk point system commonly referred to as the four-point rule has been developed and will be forwarded to the government. IBC supports this proposal and we urge you to consider it.

Appendix E outlines other non-product-related issues we would like to bring to this committee's attention that will either have an impact on the system or should be addressed at the same time as the introduction of a new auto insurance product.

Appendix G highlights a problem encountered in tort and accident benefits interface and suggests a possible solution.

In conclusion, IBC believes the government's proposal provides a framework for an auto insurance system that

will provide the appropriate benefits to those involved in motor vehicle accidents in Ontario. We believe that the government has achieved a workable balance of access to tort and access to no-fault accident benefits, and we congratulate you for this effort.

However, we feel there are a number of areas where there are opportunities to secure even greater long-term premium stability for consumers, and we urge the committee to review the detailed recommendations contained in our report.

We also recognize that this proposed change in the system will be the fourth auto insurance system in this province within the last six years. This change will of necessity involve a number of transition issues, including education of the public, brokers, agents and insurers. IBC is ready and willing to assist and actively participate in that process to ensure that this transition occurs as smoothly and as soon as possible.

Thank you for your attention. My colleagues and I would be happy to answer questions from the committee.

Mr Crozier: Thank you for your presentation. I hope that in the days and nights to come we will have an opportunity to read through this. Just to highlight some of what you have presented to us this morning and so we all better understand what the objective is when it comes to rates, in the chart provided by Exactor—and I'll refer to that—we're beginning in the rating year starting July 1, 1996, and going through to the year 2001. I haven't worked out the compounding of this, but what you're telling us is that with this plan as it's been presented to you by the government, rates will increase, over the term of this government, by somewhere in the neighbourhood of 35% to 40%. Is that correct?

Mr Griffin: I'm going to refer that to the actuary, but I believe that is correct.

Mr Ronald Miller: Yes. Over the five-year time frame, the rating year starting at mid-year this year going forward five years, the cumulative increase would be 35% to 40%, based on those numbers.

Mr Crozier: As I said earlier today, rate stability seemed to be one of the objectives of the government's plan. Can you tell us if you've calculated whether the recommendations you are making in addition to the draft legislation will have any noticeable effect on that increase of 35% to 40%?

Mr Griffin: I should preface that with the fact that we have had very little time to review fully the recommendations here and put them through the costing, but I believe Mr Miller is in a position to give a tempered response to your question.

Mr Miller: That work is in progress. The industry plan is projected to show lower increases, but not greatly. I think it was mentioned in Mr Griffin's comments, perhaps up to a point lower on an annual basis, but there would still be a substantive increase over five years.

Mr Crozier: As a matter of fact, it was in the comments: "With regard to immediate costs, the government's proposal is significantly less costly than Bill 164. The expected adequate average required premium is estimated to decrease by 18%." Then you go on to say, "We note a trend of 7% to 8% for the government's proposal." Can you relate those two figures for us so that we all understand it better?

Mr Griffin: Mr Cooke is going to take a stab at it.

Mr George Cooke: In order to put the 18% in context, one has to understand that it's comparing a fully adequate actuarial costing of the government's proposal against a fully adequate costing of Bill 164. That's what consumers should be paying for Bill 164 today as compared to what consumers in fact are paying. That's where the 18% comes.

What we're suggesting in our presentation is that against those numbers, the government's proposal as stated will trend somewhere in the order of 7% to 8% per year. Bill 164 would trend somewhere between 11% to 15% per year, and you can see those trend numbers on the chart in front of you.

We've suggested modifications in our detailed appendices. You've got to appreciate that in the course of a week it's almost a Herculean task to get one of these things costed, let alone three, and Mr Miller's managed to do two of them. We've suggested that with further changes, particularly focused in the area of controls, we can reduce that starting point, that \$1,140.38, by up to \$100 and likely reduce the trend by about a point off that 7% to 8% range, all of which has to be put in the context of an average street premium today—that's the average price paid by the consumer, realizing there is no such thing as an average consumer—which is about \$1,115. It's shown at the bottom of that chart.

All of this is very confusing for someone to understand, but that's where the numbers are.

Mr Crozier: Mr Cooke, that's what I'm trying to do, to make it less confusing so that the public will not have any built-up anticipation of greatly reduced insurance costs. Albeit we're just beginning—and I appreciate it; it's a great task for you folks to have worked on it to this point. That's why it's interesting to me that the government would come out at the very outset and talk about rate stability when they themselves hadn't crunched any of the numbers.

I don't want any expectation unnecessarily built up by the public as to what this might do, although by the end of the process I hope we work towards that goal.

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Mr Cooke: I think it's important to realize that caught up in any number of what we've called product-related changes are any number of factors that can come to bear on trend. The tighter you can make the controls without disadvantaging the truly injured accident victim, the more you're going to get a handle on trend. The trick is not in adjusting the benefit level; the trick is in adjusting the controls and the system so that those people who are truly injured get the right amount of treatment and only the right amount of treatment, and those who aren't truly injured don't get treatment they don't need or treatment that isn't doing them any good. That's the trick.

Mr Griffin: I'd also suggest not to lose sight of the fact that if you look at the extreme right-hand table there, if we do nothing, the trend under Bill 164 is double-digit and we end up with 65% or 70% over the next five years.

Mr Crozier: Absolutely.

Mr Kwinter: I'd like to pursue this whole idea of cost because that is really what is driving this whole agenda. Most people have no idea what insurance should cost. All

they know is, "Five years ago I paid X and now I'm paying maybe two or three times X." I know that when I was the minister and had to defend what was happening in the insurance industry, that was the most common complaint I had, this idea that, "I've never had an accident and suddenly my premiums have gone up dramatically." I applaud your recommendation that there should be some education so that people understand how insurance works.

Having said that, I'm having some difficulty with your proposal. If the intent is that insurance is becoming unaffordable, and I think most people over the last 10 years have been complaining about the affordability of insurance, then your proposal does not meet that test. We have a situation where I get the impression that anything is better than 164 and it doesn't matter whether it's affordable, it's not as bad as 164. I don't think that is the criterion we should use.

We have the opportunity to correct what is wrong with 164 and hopefully, with our deliberations, we will do that. When you consider that the rate of inflation is running at about 2% or less—but certainly, if we use 2% over the next few years, it's a pretty reasonable presumption. It may not be; it may go up a little higher, but it's also going to be less as it is right now.

You're taking a look at a situation where by your own admission premiums are going to increase under the new plan by at least 35%—that's on your assumption—which by no stretch of the imagination, I don't care how you sell it, is going to be perceived as rate stability. Plus, and this is a huge plus, when you compare what you are proposing to Bill 164, it would be different if you said, "There are inefficiencies in 164; there are abuses; we're going to tighten up everything; we're going to provide the insurers with the same kind of coverages they've had before, but we're going to reduce their increases from," as you've said, "18% down to 7% or 8%." But you're not doing that. You're dramatically cutting back on the coverage.

You would think that with the efficiencies you're putting in, with the controls you're putting in, with the cutback in what you are covering, if anything, you would see decreases each year as the economies of scale and the efficiencies click in, but you're not doing that.

I can tell you that I remember when OMPP came out. Our target was 5% and it was absolutely politically unacceptable to have premium rates going above 5%. Now you're just saying that as a matter of course they're going to go up 7%, 8% every year and that's great, because the alternative, 164, is far worse. I agree and I think there's no question that we have to deal with changing what is happening there. But somehow I feel you still haven't done it; you haven't come up with the solution.

Mr Cooke: Give us a chance to try to respond to what I think of your question, if we put a question mark on the end of it. One has to realize, first of all, that this is an average consumer. Good drivers under this plan will have the opportunity to see price decreases. Similarly, with the element of choice, consumers will be able to purchase much more closely the coverages they actually need, and with the introduction of additional rating variables, prices

can be set in such a way that consumers are paying for coverages they're otherwise going to be able to take advantage of. So with those particular points, there's a substantial number of people who actually could see positive rate change, reduction under this kind of a plan.

There are some others today, because of subsidies in the system, who will see some increases. Those are either people who are getting a free ride on the back of the many or people who are bad drivers. I don't think that the public, generally speaking, have a problem with that kind of an outcome.

We've tried to demonstrate here that inflation and the cost of auto insurance have absolutely nothing in common. As much as I would love to see price increases at the rate of inflation, or for that matter even less, it's not realistic when you look at the component of the makeup of what we pay out in claims relative to the makeup of the CPI which those charts indicate. They've got nothing to do with each other. It's apples and oranges.

The last point I would make is that I don't think there's any substantial reduction in coverage here available for an innocent accident victim. In fact, in many instances, many innocent accident victims, because of the tort access, will have additional coverage available to them. It was not the case in Bill 164. What we've cut out is complexity and the cost associated with it, the potential for fraud and the cost associated with it, and the fraud and the cost associated with it.

Ms Lankin: I'm interested in Mr Kwinter's problems with your plan, because as I understand Mr Cooke's OMEGA plan, he actually shopped it around, and the Liberal Party adopted it before the last election and signed on, and the Tory party adopted it before the last election and signed on. I'd sort of thought that everybody was there together in that pot so I'm surprised that there is now some hesitancy on their part.

Mr Griffin, your colleague just made some comments about who's going to benefit; for example, good drivers will benefit. Can you tell me your definition of a "good driver," and how many of them are there out there? Who's actually going to get a decrease? What percentage of the insured driving public is going to see a decrease in their premiums?

Mr Griffin: I think we all like to think we're good drivers in this province. The reality is that we're not. I can't tell you what an individual company's definition of a "high-risk driver" or a "bad driver" is. You might hear from the two companies represented here, but that will certainly vary, company to company.

Ms Lankin: If you've got a couple of speeding tickets but you've never had an accident might mean you're a good driver because you can drive quickly and be safe.

Mr Griffin: Companies look at the combination of those kinds of things differently in terms of setting their risk assessment.

Ms Lankin: One of the problems I have is understanding what's behind some of the language that we hear thrown around, and with a lot of respect I think from the industry sometimes it's pretty rhetorical—you can say that about us as politicians, but I'm now going to say that about you as politicians on behalf of your industry—that the many are paying for the bad habits of the few, and

that lots of good drivers out there are going to get a decrease. In fact I'd like to see some proof of that I guess is what I'm saying, and we'll ask those questions as individual companies come forward later on.

Dealing with your own information here, at appendix B, it indicates that, "In Ontario, \$7.9 billion was collected in premium revenue and \$6.3 billion paid out in claims," that's in the insurance industry overall. "Auto insurance represented 62% of all premiums collected with \$4.9"—I presume that should be billion, not million—

Mr Griffin: Yes.

Ms Lankin: —"\$4.9 billion generated" in terms of the premiums collected "and \$4 billion paid out." So there's certainly a profit margin there overall on auto insurance in Ontario.

Now I look at the Exactor chart you provided us with and I see that you say the average rate under Bill 164 is about \$1,400, and under the government plan it will be between \$1,100 and \$1,200.

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Can you tell me why you're not predicting then that the average premium rate is going to come down in Ontario, that the consumer actually is going to see a reduced premium rate, given how much there is a reduction in the benefits that they would receive if in fact they're injured in an accident?

Mr Griffin: Can I just correct maybe your first observation and have one of my colleagues respond to your second. With regard to the numbers in appendix B, the \$4.9 billion in premiums and \$4 billion in claims does not necessarily indicate a profit. As a matter of fact, over the last 10 years in this province there has, I believe, only been five or six years in which the industry has generated a profit on auto insurance. There are other things coming into play obviously, including operating expenses on behalf of the industry.

With regard to your second question on the costing, I believe Mr Cooke had a comment there.

Mr Cooke: I think the answer to your question is indicated by looking at the street premium, the average street premium at the bottom of the page of \$1,115, and to the extent that this average means anything—I've already pointed out there is no such thing as an average consumer in this instance—it's the comparison between that and the \$1,140, as opposed to that between the \$1,140 and the \$1,390. Companies today are selling this product substantially below cost, in the order of 18%.

If for whatever reason, going forward, companies are inclined to continue to sell below cost, then of course people will see price reductions. I think Mr Miller should likely speak to what he's assumed here, but what he's tried to do, as I understand it, is tell you what these products should cost and also tell you what people are paying for them today.

Ms Lankin: Before Mr Miller responds, because I have another question and you might want to wrap them both up, let me just say in comment that the way I understand it then is that the average price out there should be actuarially about \$400, and the average price in reality that's being paid is about \$1,100, and the new product that's coming in actuarially should be about \$1,100. So there may not be any room in the industry for

decrease because, one could argue, the marketplace has been very successful and competition in fact has driven the costs down and we're seeing some benefit from that, and the government's bill simply allows the companies off the hook with respect to the marketplace competition.

Mr Cooke: I think you have to substitute \$1,400 when you said \$400, but with that change, I think the observation or the way of using the numbers is likely correct, other than to say that these markets work in an extremely effective way if they're allowed to work. The fact they're working that way is why you've got an 18% drop.

I can't believe that with some 160-odd companies selling this, the degree of collusion that's otherwise implied could ever possibly take place. Somebody will lower prices and the market will fall. That's the way it works.

Ms Lankin: Then it certainly makes you wonder why the changes that the government's bringing forward and the way they're bringing them forward are needed. But let me ask, in terms of the actuarial study, first of all, I'd be very interested and I think other members of the committee would be interested in seeing that. Will you be providing us with a copy of that study?

Mr Miller: The body of the study and the major exhibits are included as appendix F in the handout here.

Ms Lankin: In that, will it provide us, for example, with the assumptions you've taken into account and the caveats?

Mr Miller: Yes.

Ms Lankin: Are there a lot of caveats on this study at this point in time?

Mr Miller: There are a couple of pages of bold-headed caveats and one of them relates generically to many assumptions so you have to read that carefully.

Ms Lankin: My understanding is that in the work you've done and in the projected 7% to 8% increase, as we see the costs of premiums continue to rise under this new proposed product, in fact those numbers don't contain things like contingency fees and transition costs. Obviously, they don't change any proposed changes to the Facility management, because we don't know what that will be yet.

The OHIP subrogation cost, the 2% tax that's going to be reintroduced, all of those things would in fact be passed on to the consumer potentially in terms of the premiums, or at least the actuarial assumption of what the cost of the premiums would be as well. Is that correct?

Mr Miller: With respect to the analysis I've done, one of the items you mentioned was increased transaction costs to do with the change in system. I believe that's accounted for in the analysis I've done. Basically, there is something called an allocated loss adjustment expense provision. The numbers I've used are based on calendar year 1994; aggregate statistics during calendar year 1994, the industry was retooling for Bill 164 and had those kinds of costs. They've been projected for, and I believe they're accommodated.

For the other two items, the OHIP levy is not addressed. There's a caveat in my analysis saying it's unknown. There's a provision that this may come about per regulation-making power. It's unknown at the time I did the report what the amount might be, so I've not

included it. To the extent that it comes to pass, there will be additional costs beyond what's here.

With respect to contingency fees, there's also a caveat in my report. It's my understanding the government may be planning to introduce that, but again that's not certain at the moment; it's rumour, if you like. I have not taken it into account in this report and that is a particularly difficult issue to analyse, but my expectation is that it would tend to increase costs on the tort side in this product, and I have not accounted for it.

Mr Silipo: If I were to look at this from the perspective of the average Ontarian, to the extent one can define that by income—it's my understanding the average Ontarian earns about \$43,000—what will happen to that individual's premiums under this new plan? Will they go up? Will they go down?

Mr Cooke: That depends very clearly on the driving habits of that particular individual, whether he's claims- and conviction-free, what territory he's driving in, be it a rural or an urban area, what kind of vehicle he's driving, whether it's new or old, whether it has safety features or doesn't. There are any number of factors. Hence, that's why I make the comment that this average person that this thing is talking about doesn't exist.

Mr Silipo: Could you not, as an industry, give us some typical examples of what might happen?

Mr Cooke: Not in the five days between the time we saw the material and appeared this morning.

Mr Silipo: I appreciate that. Could you do that in the next week or two for us? The reason I persist on that point is that it seems to me that if part of what the government wants to do here, and part of what I think you're arguing in support of it, although with a number of additions and changes that you'd like to see, is that this will stabilize rates or perhaps even bring rates down. It seems to me we've got to give people some certainty that that's going to happen. Otherwise, we're just asking people to change from one system to another in the hope that this may happen but with no certainty that it will.

Mr Cooke: I share your concern about the need for assurance of stability and increased consumer confidence in terms of what promised outcomes will actually be delivered. The best I can say to you is that to respond on an individual-specific basis, it's going to have to be accompanied by company response. Some of the companies presenting before the committee may be able to do that kind of analysis in time for you. We certainly will pass along the request. I can't promise you that they can in the time that is available. This is not a hedge; it is simply a very difficult task to move from where we are to that kind of detail.

Mr Silipo: I appreciate it may not be easy to do, but if the industry is generally looking forward to the changes under this proposed legislation, it seems to me it's also quite frankly incumbent upon the industry to give us a clearer sense than you're able to give us this morning about what that's going to mean for the average consumer.

As I look at it and I look at the list of caveats that you've talked about, and a number of others, as I said earlier, it seems to me the average family is going to be looking at a situation where they're going to have, by

virtue of this new legislation, less in the way of benefits initially if they are going to be involved in an accident. The initial instinct would seem to be that they ought to purchase the additional benefits. When you factor all those things in, I'm not sure that people are going to be any better off than they are now in terms of the combination of premiums they are paying and the coverage they are going to get as a result of those premiums.

If there's an argument to be made that proves my point wrong, I think it's important we have that.

Mr Cooke: The vast majority of Ontarians, I suspect, or at least the majority, would likely not require the additional coverage. That's why the element of choice and the options are a very important design feature in this product, or however it may be modified.

I will be here on Wednesday, appearing on behalf of my own company. To the extent that I can in the next two days, I will try to address that question in the specifics of my company.

1120

Mr Silipo: Two of the other points that you've made are that part of what has been driving costs up have been the medical rehabilitation costs and I guess the question of fraud or abuse in the system. Why could those issues not be addressed just as adequately within the present system?

Mr Griffin: In my presentation I referred to the concept of entitlement versus indemnity. I think the current system, the legislative portion of it that bars access to courts totally on the economic side, means that we've infused so many benefits into that side that it forces all of this. It forces this entitlement. It's hard to introduce it into the current structure.

Mr Sampson: Thank you, gentlemen, for your presentation. We'll pore through the appendices. I want to ask you a question, though, about how you as representatives of the industry view this proposal vis-à-vis competitive pressures in the market for auto insurance in Ontario. How do you, Mr Griffin, on behalf of your industry, view this product as it relates to whether or not you feel your industry is going to want to more aggressively sell it in Ontario or not, as opposed to and compared, I suppose, to what we have now, which is the 164 plan?

Mr Griffin: I find it difficult representing the more than a hundred companies here to talk about competition among them, but I might punt this one to Mr Rogacki, who is probably one of the more competitive in the province, to respond.

Mr Andrew Rogacki: Thank you. Under 164—let me start differently. We are a specialty company that insures drivers that are high-risk drivers. We were intending to get into the standard markets to insure good drivers some five years ago but decided not to when the NDP came into power, and particularly when 164 came in because it was simply not a good business proposition. That's a long way of saying that once the new legislation comes in, we will be very aggressively seeking to expand our markets and sell more insurance, so availability will not be an issue.

Mr Sampson: Do you think your view, to want to aggressively market insurance in Ontario, is different than anybody else? You have a specialty market you focus on,

but do you have anything that leads you to believe that other companies might not want to follow suit and get more back into the business?

Mr Rogacki: Absolutely. I believe companies will get back into an aggressive mode of competing for auto insurance business.

Mr Sampson: What's the current state with respect to 164? Would you say that there are companies that don't want to write auto in Ontario?

Mr Rogacki: Yes, absolutely.

Mr Sampson: So even in that competitive environment the street price—and again this is this average person, if I understand your data correctly—even in that competitive environment where you say there are industries that really don't want to be here, even in that competitive environment we see a significant reduction vis-à-vis street price and the actuarial street price, if I can. Is that a fair statement? That even in a bad competitive environment some companies are selling below the actuarial street price?

Mr Rogacki: In a bad competitive environment some companies have not taken the rate they need to take and they're rate-deficient today in expectation of the law changing.

Mr Sampson: There are, by the way, some companies, is it not correct, that are selling at the actuarial street price or pretty darn close to it. They've actually taken the increases?

Mr Rogacki: That is correct, and those companies that are selling at the actuarially indicated price today would be able to take a significant decrease.

Mr Sampson: I guess you'd see those data if you took a look at the numbers that the OIC is now producing. They've produced rate profiles for various companies and for various sort of average client or target client groups. In fact, I think the last one showed there was a significant difference in price between one company and another for effectively the same risk. So you do see that in fact now, don't you, in today's market?

Mr Rogacki: You could make some informed judgments but no more than that because you really need to understand exactly how adequate the company rates are to understand whether they will or will not be able to take a rate decrease.

Mr Sampson: I want to talk to the expected price increases as presented by your actuary. What's driving those numbers? Do you have a sense of what's driving? Is it the tort component? Is the no-fault component? Maybe Mr Miller.

Mr Miller: If you're talking about the table that compares the government plan and Bill 164 and the percentages going to OHIP—

Mr Sampson: Yes, that's the one.

Mr Miller: The strongest driver in there is the increase in medical rehab costs, but it's not the only one. The tort bodily injury coverage is projected to trend forward at a rate of approximately 7%. Some of the physical damage to the vehicle, such as comprehensive, is projected to trend forward at significant rates as well, and also the disability income in the no-fault is going up around 7% or 8% a year. But medical rehab is the crucial one.

Mr Sampson: Okay, let's take a look at the med rehab side. If you took apart that increase and started to dissect it to its various components, is there a particular component? Is it usage? Is it the actual underlying cost of a neck brace, for instance? Are neck braces going up 7% on an annual basis every year, or are we getting 7% more access to neck braces, if I can put it so bluntly?

Mr Miller: I don't have that level of detail. The way I analyse this, as an actuary, I look at changes in frequency of claim and changes in severity or size of claim. There is some projected increase in the frequency of claim. The biggest piece comes from the projected severity, increases in the severity of claims. The increases in severity may be related in part to increases in prostheses and different things. They're also related in part perhaps to the same claimant last year versus this year getting some more treatment, a different kind of treatment, new treatment, and also, of course, the rates that have to be paid to the health care practitioners.

Mr Sampson: What were you able to incorporate in your costing estimates as it relates to our vision of getting a better handle on the industry, and within the practitioner industry as well, on what the appropriate treatment is for certain categories of injuries? Did you give much consideration to that, or is that just so new that you didn't know how to cost-estimate it?

Mr Miller: It's considered through judgement and selection, going forward. For instance, this table that shows up in the handout under Bill 164 projects a medical rehab trend forward in the mid-20% per year; under the government plan, it has been reduced to 15%, by my judgement. That judgement recognizes there are certain features of this plan that are vast improvements over Bill 164 and presumably will contain that trend in costs somewhat. It's a very speculative and judgemental sort of item, pushing this forward five years in an environment where we're talking about significant changes to the system. One has to really make a judgement as to what those might be. So it's quite possible other actuaries would make different judgements.

Mr Cooke: Mr Sampson, I wonder if I could just add something there. In terms of this whole med rehab area, it is an area, in my view, where, first of all, you can best characterize it by saying there is no effective measure of outcomes that would be necessary to be able to even accredit these facilities. The result that we see is a phenomenal increase in the usage.

A lot of the treatment that is being applied has no basis in medical science, no research-supported information and in fact in many instances could be best characterized as feel-good therapy or alternatively one might even go so far as to say it's causing an iatrogenic reaction for the claimant or the person being treated such that it has a negative effect rather than not.

Mrs Marland: I'm sorry, I didn't hear what kind of reaction.

Mr Cooke: Iatrogenic: the treatment is in fact making the person ill as opposed to making them better.

If you look at the recently completed Quebec study on soft-tissue injuries and then compare what they predict—and this is done with proper medical review—ought to be happening, the duration here in Ontario compared to what one might expect is running almost twice, and the

severity is sufficiently higher as well. What that suggests to me is that there are a lot of people receiving treatment that isn't doing any good at all for them or the public, and there's a huge cost associated with that.

Mr Sampson: So you would agree that there is significant benefit for both the insurance companies and the insured if we were to encourage such studies in Ontario. I'm not suggesting that there's a difference between Ontario and Quebec. I don't want to get into that discussion today.

1130

Mr Cooke: You don't need to study. The consumer will win. You don't need to study. The Quebec study is generically applicable.

Mr Sampson: Right.

Mr Cooke: What one has to do is take what it tells you and put it in place.

Mr Sampson: And use it. Right.

Mr Wettlaufer: Gentlemen, over the last five years the insurance companies significantly reduced their administration costs. Could you give this committee an idea how much in percentage terms?

Mr Griffin: Can you respond to that, Ron, the trend in expense factors?

Mr Miller: That hasn't been analysed in this report and I don't have those kinds of numbers at my fingertips.

Mr Griffin: It's certainly available and we could enter it into the committee as a follow-up.

Mr Wettlaufer: I think it would be helpful.

Secondly, Rob Sampson alluded to the marketplace shortage in automobile insurance over the last five years. Insurance brokers around the province have suffered greatly from the standpoint of not being able to place their clients' automobile insurance in many cases into the regular market because they did not have a facility for regular market insurance.

Now that would be in large part due to the fact that insurance companies have not been able to obtain a reasonable return on equity in the automobile insurance. Aside from mutual insurance companies, which are owned by their policyholders, the stockholding insurance companies, the stock companies are owned by their shareholders. Many of these shareholders are demanding a greater return on equity and many of these shareholders are pension funds and these funds are in fact held by unions. Correct?

Mr Cooke: That's correct.

Mr Wettlaufer: Monte Kwinter and Bruce Crozier both alluded to the old OMPP plan. Have any projections been done on what the increase in premiums would have been under OMPP over the next few years?

Mr Miller: I have not analysed that particular issue in this report or in this supplemental material, I guess, because the OMPP plan saw its sunset at the end of 1993 and isn't on the table.

Mr Wettlaufer: One short question. I think it's important to bring to the attention of this committee that the insurance brokers association, and, by the way, insurance brokers represent their clients, pointed out to the then Liberal government that there were two key areas of inadequate benefit levels under the old OMPP plan and those two key areas were self-employed individuals and the student.

The Chair: Thank you very much. That brings to a conclusion our hour together.

Mr Kormos: Excuse me, Chair. Mr Sampson only left the government members a mere minute and a half. I know some of those members have concerns about this bill. They've told me so privately. I wonder if on consent the government members could be given five more minutes for Mr Hudak, Mr Arnott or Ms Marland to ask questions of these people.

The Chair: I believe it's inappropriate for someone who is not a member of the committee to move a motion.

Mr Kormos: I didn't move. I said, "I wonder if."

Mr Sampson: That would be good for 17 hours.

Mr Kormos: A mere five minutes.

The Chair: I'd like to thank the Insurance Bureau of Canada for their presentation to us this morning. Thank you very much.

Mr Sampson: We don't have 17 hours, Peter.

Mrs Marland: Mr Chair, I'm wondering if I could suggest one thing while the next deputation is coming forward. Because there are eight or nine of us on this wonderful representation on this side, sometimes it's helpful before we start our questions if you could indicate that we're now going to the government members and there are three people who wish to speak.

It's very easy sitting side by side over there, and I know this from being in opposition, when you can say, "Look, I've got a question as well," to your colleague and you split up the time, but in this situation we can't do a run up and down and see how many people have got their name on the list.

Ms Lankin: Do you have a whip over there?

Mr Kormos: Mr Sampson took all the time anyway.

Mrs Marland: No, no, that part is fine, but it would be helpful to know if we've got other colleagues who want to speak.

The Chair: I will try to announce that when we move over. Advocate Rehabilitation Management notified us very late this morning that they were not able to attend today. So the committee will, without any further business to bring before the committee—

Ms Lankin: Mr Chair, why didn't you give us another half-hour with the committee? Why didn't you tell us this? They haven't gone. They're just outside the door. We could bring them back in, have the insurance bureau come back in and ask more questions.

The Chair: That was their time allowance at the time.

Ms Lankin: But you didn't facilitate this very well, Mr Chair. If you knew there was another half-hour coming available, they could have utilized that time.

The Chair: My apologies. We stand in recess. I would bring the committee's attention to the fact that we are reconvening at 1:20 pm after lunch. That's 10 minutes before time. Thank you very much.

The committee recessed from 1135 to 1322.

ST MICHAEL'S HOSPITAL HEAD INJURY TEAM

The Chair: This afternoon we have a number of groups with us. First is the St Michael's Hospital head injury team. Welcome to the standing committee on finance

and economic affairs. We have 20 minutes together. If you would like to start with your presentation, we could finish perhaps with a few short questions. Identify yourself for Hansard, please.

Ms Sheila MacDonald: Thank you. I'm Sheila MacDonald, speech pathologist, head injury team.

Ms Kathy Townsend: I'm Kathy Townsend, the referral coordinator for the head injury team.

Ms Sue Balogh: I'm Sue Balogh. I'm a social worker with the head injury team.

Ms MacDonald: We'd like to thank you for hearing our concerns today. We're here on behalf of the individuals we serve who have traumatic brain injuries. The St Michael's Hospital head injury team provides multi-disciplinary acute care, rehabilitation, referral to community services and follow-up to approximately 250 Ontario citizens with traumatic brain injury each year. Through our experience with now over 2,000 people with brain injuries, we've developed some expertise in identifying rehabilitation needs and required insurance benefits for these people. We see individuals with all levels of severity of injury, and to keep in mind the perspective of the person with brain injury, often we tend to think of them as some other group of citizens. We need to keep in mind that any one of us at any moment could become someone with a traumatic brain injury. What it means is that our personalities, our intellect, our ability to relate to others and our ability to continue with our regular functions would all be affected. Please, I'd ask you to keep this in mind as I go through the list of needs and benefits today.

Our perspective is a long-term continuum of services required for these individuals with traumatic brain injuries, and to this end we'll speak to our concerns primarily about the access to medical and rehabilitation benefits. Our concerns and proposed solutions are based on the inpatient and outpatient experiences of individuals who live with the long-term effects of traumatic brain injury. Again, more than bones and tissue, the brain is the essence of who we are, so we're making a distinction between brain injury and soft tissue injuries.

Our first concern is with the levels of severity, or the definition of "catastrophic impairment." A considerable percentage of people with mild brain injury experience severe disruptions in their daily functioning, so we have concerns about the use of the Glasgow Coma Scale score as proposed as an index to determine eligibility for benefits, and here's why: The GCS will not help to divide patients into groupings that require similar benefits following traumatic brain injury. This is because someone with a low GCS may go on to require no or few services in rehabilitation and medical benefits, whereas someone with a higher GCS may require years of intervention. Here I'm reminded of two patients I saw, both lawyers. One had a GCS of 3 and is now happily returned to his law practice; another had a GCS of 14 and three years post-injury has not returned to his law practice. I hope that gives you an example.

Another problem with GCS scores is that they fluctuate from a higher to lower level post-injury, so it depends on when you take the GCS score.

Finally, and most important, a GCS score is influenced by blood alcohol levels. High blood alcohol levels can

serve to lower the GCS, and we're concerned that using a GCS score to determine eligibility may bias benefit entitlements in favour of drunk drivers.

Our solution there is that individuals should be classified on the basis of their disabilities that undermine their independence and quality of life, following thorough multidisciplinary assessment. We also recommend that a brain injury task force be struck, with input from clinicians with expertise in brain injury, to create a disability or classification scale that accurately reflects the needs of those with a head injury.

Our second concern is with regard to the amount of benefits and impact on the health care system. We're all painfully aware of the pressures on the health care system today, and sometimes what can be Mr Eves's solution is Mr Wilson's nightmare. Here's our concern.

We understand that the new legislation provides for the government to recover costs incurred by the public health care system in treating motor vehicle accident victims. However, this does not address the current pressures within each hospital to reduce length of stay to ensure bed availability and resources for new admissions. As a result, the reality of acute care is to discharge patients as soon as they're medically stable, and these patients often require support and rehabilitation benefits in their homes. Frequently, they're sent home to await admission to an inpatient rehabilitation program.

To meet the pressure to discharge, hospitals rely on rehabilitation and attendant care insurance benefits to transition these patients to their homes. Many of these individuals require 24-hour attendant care. The proposed entitlement for attendant care for an individual with a moderate head injury is \$3,000 per month. At \$10 per hour for an attendant, this would result in 12 days of 24-hour attendant care. The waiting period for admission to a rehabilitation facility fluctuates from three weeks to months. The reality of the shrinking health care system demands that insurance benefits be tailored to meet the needs of individuals with brain injury who are returning to the community.

The solution we propose there is that we recommend that individuals with brain injuries be assessed for rehabilitation and attendant care benefits according to their individual needs, the available resources and their individual family situations.

Our third point is with respect to timely and fair access to medical and rehabilitation benefits. Research has shown that you can decrease the costs by increasing timely access to rehabilitation and medical benefits, and this occurs in the following ways.

First, you can identify all deficits proactively to initiate appropriate rehabilitation and prevent further complications. Second, you can promote early intervention by returning people to work or school and productive lives as soon as possible. Third, you can decrease the number of people who fall through the cracks and require other types of social assistance and government-funded supports.

We believe that timely access to benefits will be seriously compromised by section 42 of the draft Ontario regulations under the Insurance Act. For those of you who haven't memorized all of the acts yet, this section

calls for the submission of a treatment plan and a statement by a health care practitioner about the feasibility of the rehabilitation plan.

We understand the insurer's need for a treatment plan, and as a large percentage of individuals with brain injuries are admitted to and discharged home from acute care hospitals, this treatment plan will likely be filled out in the acute care stage. At St Michael's Hospital what we presently do is we provide a prescription letter for the insurer that outlines the impairment to be treated, the services required and who should conduct them. This much we think is reasonable and necessary.

1330

However, in the current acute care environment of stretched resources and reduced length of stay, estimating costs and the duration of the treatment plan is unrealistic. This requirement will pose a serious impediment to the access of needed services, and more importantly, all aspects of a person's future rehabilitation needs cannot and should not be predicted at this early stage. Assessment and treatment planning must be viewed as an ongoing process.

The solution we propose here is that cost estimates should be the responsibility of the case manager or private practitioner. Time should not be taken away from direct patient care activities to determine future care expenses for the insurer.

The second issue related to timely access is the insurer control versus objective multidisciplinary assessment. When a person is in an acute care or rehabilitation hospital, a multidisciplinary team is usually involved in assessing the needs of that person. Because of this, the individual receives objective, coordinated, multidisciplinary assessments by people with proven expertise in brain injury. These assessments result in recommendations for rehabilitation services that are objective and tailored to the individual by people with expertise and who have no vested interest in making these recommendations.

The proposed legislation leaves it to the insurer to decide entitlement of benefits even though he or she may not have expertise in brain injury yet does have a vested interest in reducing costs.

Our experience has been that insurers too often overrule the recommendations of multidisciplinary professionals and insist on having the patient reassessed by their own therapists, who may or may not have expertise in brain injury. This can result in increased length of stay in hospital, which is expensive to taxpayers again; delaying the implementation of rehabilitation services and attendant care and thereby placing the person at risk; duplicating services at taxpayers' expense; and increasing the risk of further debilitation by keeping the person in the assessment mode and preventing them from getting on with their rehabilitation and in fact getting on with their lives.

The solution we recommend here is that the insurer should be required to follow through on recommendations of the comprehensive multidisciplinary teams that are available in the acute care and rehabilitation settings.

When a multidisciplinary assessment is not available from the treating hospital, the designated assessment centres for brain injury within the province could be used

to provide these objective multidisciplinary assessments. We think it would be more cost-effective for the DACs to be used proactively in treatment planning rather than just for dispute resolution when there isn't an existing multidisciplinary team already treating the person.

Our final point today is with regard to the definition of "health care practitioner." Currently, the definition is restricted to physicians, chiropractors, dentists, optometrists, psychologists and physiotherapists. This definition does not reflect current clinical practice of assessing and treating individuals with brain injury. All qualified health care professionals should be represented in the definition of health care practitioner and therefore have the authority to endorse the treatment plan. The definition of health care practitioner should be expanded to include speech-language pathology, occupational therapy and social work.

Unnecessary delays in the initiation of treatment—and we have seen delays of weeks to months waiting for a signature—are caused when qualified professionals must have their recommendations endorsed by a practitioner from outside their area of expertise. Expanding the definition, we believe, will improve timely access, reduce blockages in services and work towards a more seamless continuum of care.

In closing, we ask you to consider the unique needs of all people with brain injuries as separate from those with soft tissue injuries, particularly with respect to determination of benefits and application for benefits. We would like to add that there are many opportunities in which the government, insurers and rehabilitation professionals can learn from each other, and our head injury team would be pleased to act as a resource in this regard in developing standards and procedures that are most fair and effective for those living with the long-term effects of brain injury. Thank you.

The Chair: Thank you very much. Your timing was perfect.

Ms MacDonald: We worked on that. Didn't want to waste the taxpayers' money, you know.

The Chair: Very good. Thank you very much for presenting to the committee today. We've used up our allotted time.

Later:

The Chair: Before the group from St Michael's departs, I'm afraid that for some reason my watch skipped some time during your presentation. Of course, the Chair would never admit to an error.

Ms MacDonald: How human of you.

The Chair: We do have five minutes left on your time.

Ms MacDonald: Oh, good, because we'd like to answer questions.

The Chair: You'd like to. I don't know if it's appropriate or not. I suppose we should ask for the committee's approval. But if there's no objection, would you like to come back up to the table and we'll have a quick two-minute round of questions. I do apologize.

Ms MacDonald: That's fine. Thank you.

The Chair: I can't even blame it on my lunch.

Mr Sampson: I'm happy to hear them answer the previous questions. Maybe then pick one of the above

that you want to answer to and give us a shot. I'd be happy to hear your answer to those.

Ms MacDonald: I liked the one about the costs. I think it was Frances Lankin's question about the costs of medical and rehabilitation benefits skyrocketing. Actually, one can think that it's fraud and all sorts of other things that are happening, but in fact what we're seeing is an awful lot of duplication of service, the insurer sending in their own person to reassess and do rework on things that have already been assessed and determined through OHIP or health-care-system-paid resources. So that's one duplication we see that could reduce a lot of expense for insurers. A little trust would reduce their expenses.

Mr Sampson: How do you get rid of that duplication then?

Ms MacDonald: For example, have insurers refer out to other rehabilitation services instead of hiring their own case management firms; have them not have their case managers phone up the acute care team and ask for one to two hours of consultation time to hear what our opinions are, when we can just send it to them in a report and they could follow up on it. I think that Sue has one of the best example for you on that one.

Ms Balogh: Frequently we do have a number of case managers who come in and they want to understand what the needs of the patient are. This might happen when a patient still is in the intensive care unit and may be so for a number of weeks. So those kinds of calls are completely premature. On the other hand, we do have people who are ready to be discharged into the community.

We did have a case of an individual who was quadriplegic. We had contacted the insurance company to make sure that services and attendant care were in place at home. We were assured that was going to happen. The patient was discharged home, only to find that the insurance company had not put in any of those services, so that patient was at risk at home. On top of that, they wanted to redo all these assessments at some indeterminate time in the future before they would be willing to implement our recommendations. That patient had had a full multidisciplinary assessment done at our hospital and his needs were well identified. Yet, this patient still went home without having the proper services and was in danger.

Mr Crozier: An earlier presenter on behalf of the industry today stated that the plaintiff's bar regards head injuries as the whiplash of the 1990s, and that extreme care must be exercised to ensure it's only the most serious head injuries that receive the expanded coverage. Then they went on in fact to suggest that the Glasgow Coma Scale be used, and you kind of disputed that. With regard to its being the whiplash of the 1990s, are you seeing an increase in head injuries? Is it better diagnosis? What would prompt a comment like that, from your point of view?

Ms MacDonald: It would hard to imagine why the person would say that head injuries are the whiplash of the 1990s. We keep statistics on all people who come to us, and there are 250 a year or thereabouts. Those numbers have not increased, except for the fact that we are taking in more traumas because one hospital has closed down, so we can explain those increases. Is it

better diagnosis? Perhaps. Mild brain injury is being better diagnosed now than it ever was. It used to be that people had hidden deficits and they would show up in mental health clinics and it would be diagnosed as a mental health problem as opposed to a brain injury.

Lastly, I think the "whiplash of the 1990s" would suggest to me that the speaker was concerned about fraud. You can't fake a brain injury very easily. I think it was Mr Sampson who said that 80% of DAC decisions were in favour of the insurer. I don't know that this is the case with the brain injury DACs, and there are separate brain injury DACs from soft tissue DACs in the province. I think it would be important to gather those data as well. Brain injury is different.

Ms Lankin: I would think one of the other differences that may have led to that kind of a statement is the increased knowledge in treatment modalities for acquired brain injury. There's been an incredible advance in that field, if you think of the work that you're doing; if you think of the longer-term care work that's going on through McMaster, a program of repatriation of patients from the States. We've learned a lot and yes, there are more costs involved. I think in general in medical rehab, with the focus on long-term care and attendant care and understanding different treatment options and support-people needs, that probably has led to some of the increased costs.

My concern is that a \$75,000 cap doesn't fix the problem that the government sees in terms of increase in costs. We need to get at the root cause of that: Is it legitimate, or is it not legitimate? We need to work through that. But what it does do is, for someone who has an acquired brain injury, if it doesn't meet whatever the emerging legal definition of catastrophic injury will be, the attendant care and medical treatment they require to perhaps remain in the community is going to be cut off after \$75,000. Do you have any cost estimates of these services over the course of a lifetime of someone who's in their, say, mid- to late twenties, what they might require?

1400

Ms MacDonald: We're not so much in the business of looking at cost estimates. Certainly, we see cost estimates from other rehabilitation companies come across our desks. I think there are some good case management firms in the province and good rehabilitation centres that would be good at providing you with more accurate cost estimates than we could. Certainly, \$75,000 can be used up very quickly. I'm thinking of a client I have worked with a lot who was injured, unfortunately, when there was only tort and \$25,000. Her \$25,000 was used up within the first year. She's been spending the last eight years trying to get services, paying for them out of pocket when she can and hoping that her court case settlement will help her to keep going in life.

I wouldn't want to see us go too much one way, too much towards the tort system. I think that the \$75,000 certainly wouldn't be adequate in the case of a lot of moderate injuries, or a lot of milds who still need some work hardening or have to retrain because it's too difficult for them to return to their original jobs.

The Chair: Thank you very much. I apologize for a split session.

GET WELL REHABILITATION CENTRE

The Chair: The next group to present is the Get Well Rehabilitation Centre, Fatima Bhyat. Welcome to the committee, Fatima.

Ms Fatima Bhyat: Thank you. My name is Fatima Bhyat and I'm a registered physiotherapist. I'm presently employed at Get Well rehab centres. I am a physiotherapist who has many years of experience, having graduated in 1969, and I'm not afraid to say that. I have also worked in various aspects of physiotherapy.

My experience as well as the many studies that I have accessed all indicate that early treatment yields the best results of the injured. The proposed changes to the auto insurance legislation and accident benefits schedule preclude this early access to treatment.

Under subsection 42(1), a treatment plan, together with a statement from the health practitioner stating that the expense is reasonable and necessary, has to be submitted to the insurance company. This we feel is giving much more control to the insurance companies. They already have that control.

I also question the ability of the individual or individuals who will approve or deny the application. Medical knowledge is absolutely necessary in order to make that informed decision regarding the treatment. I have in the past been questioned by insurance adjusters as to why I was treating a hip malfunction when the client had a low back problem. This just indicates to me that this particular person had no idea of the interconnectedness of hip problems to the low back and vice versa. There have been many such questions asked.

I've also submitted authorization forms for payments for devices which will aid the client's functions, for example, back supports, and they have been very remiss in responding to this. Again, I would state that the medical knowledge and a sound understanding of functional abilities is a must in order to make those informed decisions.

Physiotherapists, as primary practitioners, based on their education and medical knowledge, should be the ones making the decisions regarding the clients' treatments.

Under clause 42(5)(a), if the approval is denied, then the insurer will provide written notice within 14 days of its reasons for not approving the application. To date, my experience with insurance companies has been to provide no reasons, simply that the treatment was unnecessary and unreasonable.

Clause 42(5)(b), again when the treatment is denied, the insurer will provide notice within 14 days that it has referred the insured person to a designated assessment centre for an assessment. No time frames are specified either under section 42 or section 48 as to when that assessment will be done.

I again state that physiotherapists, based on their education, their expertise and the clients' doctors, are the persons to make the qualified decisions whether treatment is reasonable and necessary, and further, that physiotherapists continue to treat the client until the designated assessment centre report has been received; and further, that the physiotherapy clinics be reimbursed for all the

treatments that have ensued so far. In this regard we'd be directed by the college and the physiotherapy associations to set the standards of care and practice.

1340

As no time frames are indicated when the assessment should take place, I looked at the times allotted for the application, the denial of approval and the assessment, and at least eight weeks would have elapsed. As I stated before, early intervention is paramount in preventing intensified problems and further disabilities and thereby reducing costs. Under clause 42(b), the insurer would only pay for 15 physiotherapy treatments or six weeks from the date of the accident, whichever is the lesser. This clearly denies the client's rights to necessary treatments towards a safe return to the former functional levels.

I also understand that the purpose of the designated assessment centres is to assess the nature and the type of the impairment and whether treatment is necessary, and not to make the decisions in terms of the expenses and costs. Clause 42(9)(a) mandates the DAC to do this and assess the expense, which we feel is incorrect.

Finally, as a physiotherapist—and I've worked in many clinics—having the insurance companies pay the clinics directly for treatments rendered—with the insured persons' agreement, of course—is imperative in order for them to continue to get the treatment they require. I ask that subsections 49(3) and 73(2) be amended to read "shall" instead of "may." This would definitely ensure continuity of treatment for the clients.

Lastly, I'd like to thank you all, members of the committee, for affording me this time to voice my opinion. In the interests of providing good quality care for injured persons, I trust that you will carefully assess all the submissions made to you. Thank you.

Ms Lankin: We appreciate your presence here and your presentation. One of the things that I heard as you were presenting, I think, was a concern about the bill, and what was underlying that is your experience already in dealing with insurance companies, who of course are interested in ensuring that the benefits they're paying out are appropriate and that the individual is getting the appropriate treatment for the right length of time. And, of course, they're concerned about the cost. We can all understand that is the range of issues that would be involved.

Ms Bhyat: Certainly.

Ms Lankin: The government has proceeded with the development of draft legislation because of a general concern of the escalation in premium rates. In meetings that I've had with representatives of the insurance industry, they all point to the medical rehab cost as being the primary driver of increased rates at this point in time. Of course, that makes sense, because under Bill 164 and the previous legislation before that, the right to sue had been taken away. Previous to those two pieces of legislation, the right to sue was what was driving the costs up, back in the late 1980s.

I'm wondering if you have any observations on what's happening in the medical rehab field. Why would the cost be going up so dramatically in that area? The insurance industries talk about no gatekeepers, no appropriate treatment controls, individual health care practitioners,

perhaps in some cases conflicts of interest. There are a lot of things that they speculate on, but it's hard to know what the elements are that are driving the costs up in medical rehab. Could you give us your observations on that?

Ms Bhyat: My particular observations have not been that it's been the rehab as such. Right now, the insurance companies send a client to a DAC assessment if \$2,000 worth of expense has been incurred in terms of the rehab. This is where we feel the waste has been in terms of the number of DAC assessments that are taking place and driving the costs up a lot further, whereas if the client was having that treatment all along and there was a continuum of treatment, we wouldn't be having that situation.

Mr Sampson: Two questions. Let me, now when I can remember it, deal with the issue of designated assessment centres, which I'm calling DACs because I have a hard time saying those three words together quickly. The fact of the matter is though, that about 80% of the requests that go to DACs actually get decided in favour of the insurance companies. That's been the history up to the last available data that I have, which incorporate a good part of 1995. If that's the case, isn't there some indication here that there is an overtreatment happening? There's something wrong with the proposals that are coming forward with respect to treatment plans and appropriate treatment if 80% of the cases that go to DACs, an independent assessment of disability, eventually are decided in favour of the insurance companies.

Ms Bhyat: I don't believe that is so. As I said earlier, I think \$2,000 worth of treatment is really not very much before you're sending a client to a DAC. I think clients will need at least four to six weeks of treatment.

Mr Sampson: But haven't we provided that in the current arrangement where there's an access to medical and rehabilitation expenses for effectively 15 visits or six weeks, whichever comes first? That's what the current proposal has. It says you must file a treatment plan, yes, but you have access to the treatment, 15 visits or six weeks, on a pay-pending-dispute basis. Basically you have access to those treatments right off the bat.

Ms Bhyat: Fifteen visits or six weeks are the initial treatments. We're talking about getting over the acute phase of treatment. We're then looking at work hardening, we're looking at work simulation, after that. This is not happening in the current legislation, where you're only getting over the physiotherapy treatments, then not being allowed to get to that work hardening, work simulation stage at all.

Mr Sampson: Let me, if I can, just do a quick question with respect to the payment. I'm not exactly clear why you say it's important that the rehab units have access to the payment from the insurance companies directly as opposed to through the insured. How does that improve treatment if you get paid directly as opposed to your client getting paid and then paying you?

Ms Bhyat: It simply puts me in a better financial status to be able to continue treating the patients. If the insurance companies aren't paying me, I'm going to say, "Look, you can't continue having the treatment," because I'm not able to carry that client for that length of time.

Mr Crozier: I'd like your comments, if you could. There's been some concern with rehabilitation centres and the conflict of interest there might be in the ownership of these rehabilitation centres—they may be medical practitioners; they may be somebody in the area of law—and there is an attempt in this legislation to tighten that up. Do you have any comment with regard to that?

Ms Bhyat: Well, I also know of clinics which are owned by insurance companies as well. That to me would indicate a conflict of interest as well.

Mr Crozier: Well, we'll add them to that list then.

Ms Bhyat: I think they should be added as well. I don't think doctors have a conflict of interest in terms of making money out of a client, because they're ruled by the health professionals act which does not allow them to make money out of a disadvantage. The same would be true of physiotherapists. We're not allowed to incorporate, for instance.

1350

Mr Crozier: Maybe you wish not to comment on it, but do you see any problem then with conflict of interest, when it comes to the ownership of rehabilitation centres, that you're aware of?

Ms Bhyat: Yes, I would see conflict of interest with insurance companies owning clinics and perhaps lawyers owning clinics as well.

Mr Crozier: But not medical practitioners?

Ms Bhyat: Not medical practitioners or physiotherapists or rehab personnel, I should say better.

Mr Crozier: Yes, but notwithstanding the fact that it's controlled under any act, there may be that situation where—I hope that it wouldn't be often—somebody may be referred to a rehabilitation centre or a specific rehabilitation centre when perhaps it isn't necessary at all.

Ms Bhyat: I think clients have the right to go to the rehabilitation centre of their choice.

Mr Crozier: So that certainly would help, rather than being directed to a certain one?

Ms Bhyat: Yes, that the clients retain that right that they go to a rehab centre of their choice.

Mr Crozier: Although in all likelihood, the insured is going to go on the advice of someone, so we still have that concern that the advice be appropriately given. Or should someone be referred to a rehabilitation centre, or should someone be restricted from referring someone to a rehabilitation centre in which they have an interest?

Ms Bhyat: As I said earlier, I don't see a conflict of interest in terms of rehab personnel, and here I would include occupational therapists as well as physiotherapists and speech pathologists, because they're governed under the health practitioners' act and not being able to incorporate, so I don't feel that we would have the profit motive there.

Mr Crozier: Okay. Thank you.

The Chair: Thank you very much for presenting to us today. We certainly appreciate it.

ONTARIO SOCIETY OF OCCUPATIONAL THERAPISTS

The Chair: The next group before us is the Ontario Society of Occupational Therapists, Moira Sonnenberg. Welcome to the committee. We have 20 minutes.

Ms Christie Brenchley: My name is Christie Brenchley. I'm the executive director of the Ontario Society of Occupational Therapists, a voluntary professional association of Ontario's 2,700 occupational therapists.

OTs work in both public and private rehabilitation settings where persons injured in car accidents are receiving health care and rehabilitation. In such settings, occupational therapists play key roles in the assessment and treatment of injured persons with the goal of identifying and facilitating the achievement of appropriate functional goals in order to promote independence and self-sufficient community living.

This legislation is important to occupational therapists and to our clients. We share the government's commitment to develop a legislative framework that will provide for an auto insurance policy that works towards a fair, efficiently delivered benefits schedule to victims of car accidents. We're delighted to have the opportunity to present to you.

We have participated in the consultative process to date. In October 1995, our association made submission to Mr Sampson in the form of key principles that occupational therapists value and would wish to see represented in the legislative draft. In fact, we are delighted to note the congruence of philosophy in principle that Bill 19 reflects.

At this time, however, we wish to identify a number of significant issues and areas of concern where we feel the legislation still falls short or that it has not yet addressed, areas that we feel make the legislation even better.

At this point, I'd like to introduce our president, Nancy Gowan, and our vice-president, Moira Sonnenberg, who bring to you not only the voice of the association but also personal experience as professionals who work specifically within this sector.

Ms Moira Sonnenberg: It's great pleasure to be here. I have had the pleasure of meeting with Mr Sampson and of presenting him with our statement of principles.

We have had a good opportunity to review the draft legislation. I think we've been paying primary attention to the statutory accident benefits schedule, and particularly the medical rehab benefit end of things, where we felt we had the most to offer this committee in our review.

There are a few areas of concern to us as a professional body. We feel that these concerns also would be concerns to our clients and to the community as a whole.

First of all, we have some concerns regarding the definition and role of the health practitioner. We have some concerns around the use of treatment plans, the designated assessment centre role in evaluation of treatment plans, the overall reduction in benefits, the setting of fee schedule and the definition of catastrophic injuries.

I'd like to have an opportunity to speak to our primary concerns, which are the definition of "health practitioner" and the whole implementation of treatment plans.

We occupational therapists assert that we should be, are prepared to be and are qualified to be designated as health care practitioners. The statutory accident benefits schedule defines a group of health professionals who establish eligibility for funding and eligibility for access for funding to health care and rehabilitation. This group completes certificates for the purposes of determining and

claiming benefits, preparing treatment plans and providing statements with respect to reasonableness of costs. This group is given the designation of health practitioner. Under the SABS at this point a health practitioner is a chiropractor, dentist, optometrist, psychologist or physiotherapist if the impairment being treated is one which that profession by law is allowed to treat.

Occupational therapists are key assessors and service providers in the area of disability and impairment. Occupational therapists don't diagnose medical conditions. However, within our scope of practice we do communicate and identify to the client the functional impact of that diagnosis on their life. Occupational therapists assess the potential to restore functional ability, and we assess the potential to resume the demands of former lifestyles in the areas of self-care, productivity and leisure.

At the core of our training and of our practice we provide a holistic approach and a very functional-based approach to the assessment and treatment of individuals. I have included for you in your handout the definition of the scope of practice of occupational therapy as defined in the Regulated Health Professions Act. This profession, which is focused on the assessment and restoration of function, is conspicuously absent from a listing of professionals authorized to certify that a functional disability or impairment of function exists.

Occupational therapists are currently being contracted by the insurance industry directly throughout the rehabilitation process to complete a very overall service to the injured party.

Within the first week or two following an injury, an occupational therapist may be called in at the acute stage in the hospital setting to assess a person's level of function and to assist that person in maximizing their potential within the hospital environment.

Upon discharge, the occupational therapist is being asked to complete attendant needs assessments. We're being asked to identify those attendant care needs. We're being asked to determine the level of self-care the person can do. We're asked to look at the accessibility to the home, to the work environment and to school. We're being asked to prescribe mobility devices and other adaptive equipment that will allow that person to return to their community and to their home.

Occupational therapy is a required team member in the designated residual earning capacity assessment centres. While other DACs do not actually require an occupational therapist as part of their team, they are hiring occupational therapists to complete the functional capacity assessment portion of the DAC assessment that does determine the basis for the outcome of that assessment.

We are asked to determine job demands, both from a physical and cognitive perspective. We're asked to assess the client's ability to meet those jobs demands and, through functional capacity assessments, recommend strategies for return to work.

The occupational therapist is really the person and the profession required and asked by the insurance industry to facilitate a client's return to normal life. These are the definitions used in your draft legislation. The whole idea of "return to normal life," "return to work," "return to

function," is just an integral part of what an occupational therapist does in our day-to-day practice.

We would ask that at this point the committee consider our application to be included as a health practitioner, given the role and the importance the insurance companies have given us in the whole process of rehabilitation.

We have had verbal endorsement by the Guarantee Co of North America and the Ontario Physiotherapy Association at this point. They do support our application. We are currently in discussion with other insurance, litigation and health practitioner groups, also seeking their support and endorsement.

I'd like to move on to our concern regarding treatment plans. Ironically, the Ontario Society of Occupational Therapists, in our statement of principles and in some of our direction to Mr Sampson, did request that a treatment plan be required by all health care practitioners and health care professionals. We continue to support that a treatment plan is required and should be required not just by a "health care practitioner," as defined, but by all regulated health care professionals.

Our concern regarding the implementation of the treatment plan is that the way it's currently written, it's the health practitioner who establishes that treatment plan. If occupational therapy, for example, is not included in that treatment plan prepared by the practitioner, which we are currently not, does that mean we do not have access to funding, that our client does not have access to occupational therapy? We would like to see if that could be reworked to improve access to other regulated health professionals.

1410

It also appears that this creates a gatekeeper role in that the health practitioner would be the individual who would determine funding for other necessary services.

We also have some concerns regarding the implementation of the dispute process around the treatment plan. There seems to be a significant delay in turnaround time in the designated assessment centres. The way the legislation draft is written at this point, if an insurer disputes a treatment plan, the treatment plan would then be required to go to a designated assessment centre for review. This process, in our experience, could take six to eight weeks. What this is doing is delaying the initial acute intervention of therapy services, which could have a significant impact on how quickly we can restore function down the road for that individual person.

The Ontario Society of Occupational Therapists supports the continued use of the established designated assessment centre for dispute resolution. It's imperative that within the designated assessment centre, if we are going to continue to use them to review treatment plans, it be a peer review. We have some concerns that somebody other than an occupational therapist, for example, would be reviewing that treatment plan and either accepting it and approving it or denying it if that person were not an occupational therapist. Likewise, it's not within the scope and the expertise of an OT to look at a chiropractor's treatment plan, for example, and determine whether that is fair and reasonable and whether we would endorse funding for it.

With respect to the overall funding available for the injured party for health care and rehab, the occupational therapy society believes that \$75,000 available for all injuries and \$1 million for catastrophic injuries should be sufficient to provide adequate assessment and intervention. It is unclear whether the costs for case management are included in the \$75,000 and whether case management services will be limited in duration or will have dollar caps attached.

We recognize the need for cost control measures that will stabilize premiums. We are particularly committed to working along with this committee in any further consultation you may require. Thank you very much.

Mr Crozier: Thank you for your presentation. I was interested, among other things, to see your question that it's unclear whether costs for case management are included in the \$75,000 and whether case management services will be limited in duration or have dollar caps. I wonder if that might be a question we could direct to the parliamentary assistant.

Mr Sampson: The answer is the case managers are additional expenses under the expense category, so they're not included in the \$75,000.

Mr Crozier: That would answer your question, that the full \$75,000 would be available for the rehabilitation treatment.

Ms Sonnenberg: Will there be caps placed on the dollar amount available for case management?

Mr Crozier: Back to the PA. I feel like the Chairman.

Mr Sampson: Thank you, Mr Chairman. The answer is that case manager expenses are covered under the expense category, under the accident benefit schedule. It says "reasonable expenses," so the cap would be whatever is reasonable. There is no dollar cap, no hard cap, but it's a "reasonable" definition—if I'm not speaking out of order. I'll check to make sure that's the correct direction to you. They're out of the limit, but reasonable.

Mr Crozier: The presenter just previous, with regard to brain injuries—I suppose we're going to get a variety of opinions on this, but their concern was that the \$75,000 cap was not enough. I can't recall specifically what they said about the million, but you're affirming that when it comes to your treatment plan, \$75,000 would appear to be adequate in most cases?

Ms Sonnenberg: And that's the clue: in most cases. We're still convinced there will be a small group of individuals who will have substantial, significant injuries that would not fall under the "catastrophic" definition. If you note in our submission, we do voice some concerns regarding the Glasgow Coma Scale 9 used for brain injury. It's hard to tell. We don't have the statistics on who that population would be. I expect the insurance industry would have those numbers. They would know what the costs are and they could look at their records to determine who has gone over a \$75,000 limit that has not gone to \$1 million.

Mr Silipo: Thank you very much for the presentation. A similar question to you that we posed to earlier presenters around this concern we heard from the government as well as from the industry this morning, around rehabilitation being one of the areas they're very concerned about as it relates to costs. Could you comment on that?

Ms Nancy Gowan: We believe that under past legislation, the costs have been as a result of some learning curves, and some of what has been spoken to in the past presentations were to the fact that we've learned more about mild head injury; we've learned more about the treatments around that. We've also, I believe, become more educated around early intervention. So I think we're seeing a lot of upfront costs, which in the past tort systems, you wouldn't have seen until five or six years later, given some of the court settlements. So we believe that a lot of the costs you're seeing in some of the no-fault legislation is a result of learning, of early intervention.

We do agree that there is some duplication in the system and that it needs to be really seriously looked at. Also, there is a need for insurance companies to take a look at the information they have and to act on that information. I've seen a number of situations where insurance companies have asked for repeated assessments which continually say the same thing. Probably, use of the DAC system would help this, but we need to be able to actually act on the assessments being given, not just repeated IMEs and repeated reassessment.

Ms Sonnenberg: The other thing we've seen happen is that the insurance industry has recognized the need for costs to increase in the rehabilitation area in order to more quickly have a person return to work and return to normal function so that their file could be closed at an earlier time.

Mr Douglas B. Ford (Etobicoke-Humber): You just partially answered the question I was going to ask. How do we distinguish between necessary treatment and desirable treatment for the auto accident victim? Will treatment plans and the DACs achieve that balance?

Ms Gowan: It's our belief that accurate treatment plans with goals, target dates, time lines will help provide some of that information.

Mr Ford: Will that be cost-effective?

Ms Gowan: I believe it will be cost-effective, because it provides a guideline by which to monitor when a cost becomes more significant than what was originally reasonable. Your treatment plan will be a good guideline to be able to provide some targets as to when those costs are becoming more than what were expected.

1420

Mr Joseph Spina (Brampton North): Thank you very much for the presentation. It brought something to light that I wasn't that clear on, that is, the recognition of your association or occupational health therapists as a recognized practitioner.

In your comment, you indicated that the therapists are currently being contracted by the insurance industry, I gather on a fairly private, direct basis. Who approves those services? From the insurance side of it I can understand it, but is there any recoup of that expenditure by any party after that? Is there a cost to the injured party? Is there a cost that comes out of the government system or anything like that?

Ms Sonnenberg: I can certainly speak from my practice and I believe also Nancy's practice: We bill directly to the insurance company for our services. The individual is not charged for any of our costs. Is that your question?

Mr Spina: I think that's the answer, but I'm not sure because what I'm trying to understand is, if you are recognized as a qualified health caregiver, like the others, where would that change the financing or the funding? That's probably more importantly the question. Would that change anything in terms of who pays you or how much you're paid?

Ms Sonnenberg: I think it just ensures that clients have direct access to occupational therapists. It will not change how we are currently paid or how we currently practise. It does give us the recognition, though, of having the responsibility and the ability to certify impairment and disability.

Mr Spina: Which is what you want included.

The Chair: Thanks to the Ontario Society of Occupational Therapists for presenting to us today.

MOTORCYCLE AND MOPED INDUSTRY COUNCIL

The Chair: We now have the Motorcycle and Moped Industry Council. Mr Ramsay, welcome to the committee.

Mr Robert Ramsay: Good afternoon and thank you very much for allowing us this opportunity to address the standing committee. The Motorcycle and Moped Industry Council is a national, non-profit trade association which represents the manufacturers and distributors of motorcycles and motorcycle-related products and services in Canada.

Its members and its affiliate members account for over 95% of all new motorcycles sold in Ontario. In total, the MMIC members and affiliate members contribute over \$1 billion to the economy of Ontario and employ thousands of people throughout the province. In Ontario at the present time there are over 400,000 people who have a motorcycle licence, and insurance is one of the major factors that affect motorcyclists and the motorcycle industry.

Let me give you a little bit of background to begin with. Currently, only one insurance company offers stand-alone motorcycle insurance. What that means is that if you're going to look for insurance, you only have one company you can get it from if you don't have other kinds of insurance. If you're a new person trying to get insurance for the first time, you only have one choice, one company.

What that really means is that there is no competition for motorcycle insurance, and even that one company that does insure motorcyclists on a standalone basis requires that a person have many years' experience and clean riding records. If, for instance, you are a young person or if you ride a certain kind of motorcycle, they won't give you insurance. So what does that leave? That leaves Facility Association. It doesn't matter if you have a clean driving record. If you have no accidents, no claims, 10 years' riding experience, if you're riding a certain kind of motorcycle, the only place you can get insurance is that Facility Association.

What we're trying to do is bring some reason and some competition back to the insurance industry.

Let me just tell you very briefly what has happened over the last three years. We did a survey last year, 1995,

of motorcyclists. We surveyed 2,500 motorcyclists randomly across the province. What we found was that between 35% and 40% face extreme difficulty getting motorcycle insurance. "Extreme difficulty" means they can't get it, basically is what is comes right down to.

What we also found among the motorcyclists is that they've seen huge increases, not because of claims, not because of anything they've done, but because of changes to the insurance system. Huge increases: average 50% to 60% for compulsory coverages; average 30% for all coverages. Most motorcyclists only buy compulsory coverages mainly because they can't afford to buy the rest of the coverages; it's not cost-effective. For those people who are only buying compulsory insurance, in the last two years, their insurance has gone up 50% to 60% on average, not because of anything they've done, just because of the changes to the insurance system.

Finally, one of the biggest results and one of the most frightening results is that between 15% and 20% of those people riding motorcycles are riding uninsured. They're riding uninsured because it's more cost-effective not to get insurance, and they can't afford it in many cases. If you can't find it, and you can't afford it, some people choose to ride uninsured. I think that's unacceptable and we have to bring back to the insurance system a system where people voluntarily want to get insurance because it's cost-effective and because it's affordable.

There are three priority issues for the motorcycle community. First, the proposed amendments must lead to an actual decrease in motorcycle insurance premiums. At this point, even though it's not in the handout, the submission I provided, we contracted some actuaries to do an analysis on the impact on motorcycle insurance.

The reason we did this was because the last time we sat in this chair and the last time we had these discussions, we went around the circle. No one in the government had bothered to cost up what the impact would be on motorcycle insurance and we couldn't take the chance again this time, so we did an actuarial study. In fact, at lunch time, I was sitting with our actuary to get a full explanation so I could understand it better and they make all sorts of interesting assumptions.

The bottom line of that actuarial study is that for a needed premium—we heard that this morning from the Insurance Bureau of Canada—there was going to be an increase of 10%. Now that in and of itself sounds quite frightening, because we're already aware of what's happening with people not getting insurance, but the goods news is, if there is good news in this scenario, is that the needed premium under Bill 164 would have been 60% higher. So it does address, to a certain extent, getting cost down from a motorcyclist's standpoint. We believe there is still room, there is still opportunity for further control increase in costs.

Over the next few weeks, we will be making a further, more detailed submission to all the members of this committee, but for today's purposes, we wanted to bring that to your attention.

The second item that is a priority for the motorcycle industry and for motorcyclists is loss cost transfer provision. This provision was initially introduced in OMPP; it was maintained in Bill 164, and we urge very

strongly that this provision be maintained. If it's not, it's going to result in skyrocketing costs.

The final item is the verbal threshold and the \$15,000 deductible for non-income loss for catastrophic impairments. We believe, as defined, this is a reasonable verbal threshold and a reasonable deductible. Any reduction in that threshold, any reduction in the deductible, we believe, will put increased pressure on costs, and if the costs go up, then it doesn't become sustainable. The insurance system will have to be revisited in two years' time or three years' time.

It's very important that we put in place—because as we've heard many times, this is the fourth system in six years—finally a system that is sustainable, a system that benefits all the people of Ontario and a system that is fair to all the people of Ontario.

I want to give you lots of opportunity to ask me questions about the motorcycle industry and motorcycle insurance, so I'll cut off my little comments here and open up the floor.

1430

Ms Lankin: This morning I offered a general disclaimer that I had no relationship to the insurance industry, and probably won't in the future, but it also means that there is much about the lingo that I'm learning as I go through this experience on this committee in having read this bill and trying to come to understand it. I'm going to ask you as we go through the questions if you could explain a little bit more the issues around the loss cost transfer provision and why that's so important and how that works with respect to your industry in particular, and a bit about the verbal threshold.

The general question I wanted to ask you is, as a layperson listening to you, you're saying that under Bill 164 the rates would have gone up 60% for motorcycles on top of large increases that you've already indicated in the last year or so. We recognize there's still a problem under this bill in terms of it doesn't really produce the stability that the government wants, but that's an issue we'll have to get at.

I'm wondering if you can explain to us the nature of the problem and why it affects motorcycle riders so much. A layperson might presume it has to do with nature of injuries for motorcycle accidents and the severity of the injuries and the costs of the medical rehab, but I don't know and I'd like to understand that better.

Mr Ramsay: There are a number of factors involved. The main factor is that a motorcycle is a relatively small vehicle. It's operating in an environment with a lot bigger vehicles. A motorcycle hitting another vehicle usually causes little or no injury to the occupants of the other vehicle. Another vehicle hitting a motorcycle usually causes, or may cause, extreme injury to a motorcyclist.

As a result of no-fault benefits, and particularly the accident benefit component of that, it shifted the costs associated with those accidents back on to the motorcyclists. As a consequence, the provision that was allowed for loss costs helped to ameliorate that situation by moving that back on to the larger vehicle. Without that, the costs for motorcycle insurance would even be much higher than they are now.

Ms Lankin: Why did it go up so much? Is there a difference in the frequency of accidents or—

Mr Ramsay: That's a very good question in the sense that motorcycle accident frequency has actually been decreasing and has decreased more than automobile accident frequency.

It's from severity. We heard earlier this morning that there are two components, basically: frequency and severity. The result is, because of the severity, and particularly the cost of the benefits associated with injuries, that is where the cost has been driven up.

Ms Lankin: Where in the system do you think the costs for that should rest? One of the things the government has stated is that, for example, they want to see good drivers benefit and have decreased rates. We still haven't got a definition of what that means, because most of us think we are good drivers but probably wouldn't qualify in the insurance company's rating.

If there is a greater chance of a more severe injury on a rating scale, isn't that always going to produce a higher cost to the insured driver of a motorcycle?

Mr Ramsay: Not usually; let's put it that way. We are a national association, so we deal with British Columbia, we deal with Quebec. In those provinces, there are put into place, whether it's government insurance or private insurance or whatever, mechanisms so that the not-at-fault party does not have to absorb the costs associated with injury he or she did not create.

A few years back, just to give you a very short history here, there were rising costs in British Columbia. We went to the government then and explained what was happening, and we asked ICBC to sit down with us and work out where these costs were coming from. What they found was that costs were being inappropriately attributed to motorcyclists; they were actually costs being incurred by other vehicles hitting motorcyclists. So the claims cost was going up, but they were affecting motorcycle premiums rather than the at-fault party.

When we did this actuarial analysis in British Columbia, they readjusted their insurance premiums and actually lowered motorcycle insurance costs significantly and premiums significantly. That happened over the last three years. It was a good example of government working with industry and working with consumers to find what is responsible for all parties, and that's what we're trying to do here.

Mr Sampson: Just following on that theme of discussion, a higher tort component, though, could achieve the same result that you just found in BC, could it not?

Mr Ramsay: In fact, that's absolutely right. In the system pre-OMPP, motorcycle insurance was the most profitable insurance in Ontario. If you go back to 1987-88, the actual claims cost on motorcycle insurance would be around 65% or 60%, mainly because of the fact that I mentioned earlier, where the motorcycle rider very seldom causes injury or much damage to anyone else.

Mr Sampson: I think the last time we spoke we talked briefly about having sort of a separate plan, so to speak, if I can couch it in that phrase, to cover motorcyclists. I don't see any sort of reference to that, just quickly going through your schedule. Have you kind of dropped that idea?

Mr Ramsay: Actually, I do mention it very quickly. When we met at the end of August or early September—I can't remember the exact dates—we had put forward what we called the Ontario vehicle insurance plan. The Ontario vehicle insurance plan—what we thought was its greatest strength was its flexibility. We felt that many of the basic ideas that are incorporated in the proposals that you have brought forward are reflected in the sense that we'd like to see the opportunity for basic insurance coverage with a lot of options for people to purchase up.

What happens is that motorcyclists tend to be three different categories: some of them are very young, just getting started, and they need an inexpensive means of transportation; some of them are well established, what are called the rich urban bikers, I guess, the lawyers, doctors, the parliamentarians, those sorts of people, that can afford big bikes, and those people want to buy higher insurance and better coverage; and then there's a group of enthusiasts that love riding motorcycles, they've done that since they were eight or whatever and just want affordable insurance to fit their own situation. That's what we were proposing back then.

We believe that the proposal you've brought forward addresses that in many senses, and in that regard we're quite happy. We are concerned with a few things that aren't spelled out, but those will be coming forward, I'm sure, over the next few weeks, in particular rates; that's one of our major concerns.

Mr Sampson: I'll look forward to seeing your actuarial costings of this.

Ms Annamarie Castrilli (Downsview): Thank you very much, Mr Ramsay. I have two questions. I wonder if you might turn to appendix C of your presentation and if you might help me understand it. It deals with increases in premiums by company over a two-year period, 1994-95.

Mr Ramsay: That's correct.

Ms Castrilli: I'm not quite sure what the distinction is between the left-hand column and the right-hand column, but they deal essentially with the same period. Is that different types of insurance? Is that what that is?

Mr Ramsay: No. What we've tried to do is, in the left-hand column, 1994-95, we've shown the actual percentage increase that was approved by the Ontario Insurance Commission. So if you look just at Jevco, for instance, 1995 is 12% and 1994 is 25%; the two-year average for that would be 18.5%. What the next two columns show, the two columns to the right of that, is that based on their percentage of the market, which is 33.443%, that total increase of 12% works out to 4%. So what we've tried to do in the next two columns is show how much the weighted average has increased for motorcyclists across the board, with no changes in claims record or anything else; this is just because of changes to the insurance system itself.

Ms Castrilli: So it goes from 0.2%, in your weighted averages, to 6.2%, is that right? You have 0.2% for Royal Insurance and Pilot, and 6.2% for Jevco.

1440

Mr Ramsay: Yes. What that is, it's based on their market share—so in the case of Pilot, for instance,

2.810%—times their increase, which in 1994 was 11.3%, gives you actually what they contribute to the total increase of insurance across the board.

Ms Castrilli: What accounts for the difference between companies, in your view?

Mr Ramsay: This is very difficult. I wrote articles for several magazines over the last few years. Insurance, like many businesses, is competitive in the sense that there are many different companies that are offering insurance. They select their own criteria on which to base their premiums and how they're going to underwrite the cost of insurance. Different companies use different systems for determining risk and trying to set, based on assumptions, what the premium should be to cover that risk.

One of the most difficult and frustrating things from a consumer standpoint is, usually most consumers have no idea why they're being rated the way they are. They're being told, "This is how much you have to pay in insurance," but they don't know what factors are involved, if it's their number of years for riding, number of claims, if they have traffic convictions, if they have a young son or daughter that's 17 or 18 years old, things of that nature. They don't know what percentage of the entire premium that makes up. They're told accident benefits make up this much and third-party liability makes up that much and collision might be this much, but they have no idea what is within that framework, how that was determined.

Ms Castrilli: There are no comparisons available; basically, you have to shop around.

Mr Ramsay: You have to shop around, yes.

Ms Castrilli: I'm concerned about the statement that you made that somewhere between 15% and 20% of motorcycle owners do not have insurance. This is just staggering. I wouldn't have thought that. What do you think could be done?

Mr Ramsay: We believe it's not enforceable, in the sense that you can't set the police out checking everyone, pulling everyone off to the side of the road making sure they have insurance. The only way you can get people to voluntarily buy in there is to show value for what they're getting. Right now, a young motorcyclist, or many motorcyclists, do not see the value in paying \$2,000 for motorcycle insurance when their motorcycle might only cost \$4,000. They might be covered if they get in an accident. As we saw with some snowmobilers recently who didn't have insurance on their snowmobile, if they get in an accident, their accident benefits are covered under their automobile policy.

So from the standpoint of voluntary adherence to the system, unless it's affordable, unless it's value for what a person is getting, some people are going to opt out of the system.

The Chair: Thank you. I appreciate the Motorcycle and Moped Industry Council presenting to us today.

WAXMAN, CARPENTER-GUNN

The Chair: Our next presenter is Waxman, Carpenter-Gunn. Welcome to the standing committee on finance and economic affairs. We look forward to your presentation today. We have 20 minutes. Please proceed.

Ms Kim Carpenter-Gunn: I appreciate the opportunity for the two of us to be here today. I am Kim Carpenter-Gunn, and my partner, Rhona Waxman, is with me today. We are plaintiffs' personal injury lawyers from Hamilton of a two-person firm in Hamilton. We've been doing this type of work for 13 or 14 years in total. We're lawyers that are involved in the front lines both with respect to fighting on behalf of victims' rights with respect to their own first-party insurers and with respect to the tortfeasors, the negligent parties responsible for accidents.

A little bit of background: Both of us are former trustees of our local law association. I'm the past president of the Hamilton Medical-Legal Society, and I'm an elected bencher of the Law Society of Upper Canada. We do a lot of work in this area, and I hope that today we can give you some insight as to the practical problems that we see arising out of this draft act and regulations. I'd first like to turn over the first issue to my partner, Ms Waxman.

Ms Rhona Waxman: My major concern with the legislation is how economic loss, or real loss of the innocent accident victim, is dealt with in the legislation. I'm talking about lost wages in particular.

As you know, under the no-fault benefits, a person is entitled to 85% of their net lost income. They're also allowed to sue for any lost income up to 85% again of their net income. My concern here is that real financial, economic, out-of-pocket loss for lost income will not be covered, either through the no-fault system or through the right to sue. "Net income" is not defined, either in the regulations or in the statutes. I'm concerned that the way it's set up, a definition based on past earnings would be used.

Now, there's a real difficulty whenever you look at or attempt to construct an artificial definition of lost income based on past performance. The NDP legislation attempted to do that and came up with an extremely comprehensive way of doing it that failed dismally in dealing with a lot of real loss. However, someone can look at a situation and a judge can assess a situation and see real economic loss, which I'm concerned would not be covered. Examples are situations that come out of our practice: young people who have just entered the workforce who are underemployed, someone who's working part-time with the intention to eventually work full-time. If they're unable to work as a result of an accident, it would be logical to expect that they eventually would have been working on a full-time basis. I'm concerned that this would not be covered.

People who are not yet in the workforce: This is something that under the tort we used to be able to deal with. I'm concerned that it's not covered here. A situation where a five-year-old had a moderate head injury: The child will be able to continue in school, but there's no question that their ability to work and their ability to earn in the future would be seriously impaired. What about the people who are out of the workforce with the intention to return, people who have decided, say, to stay at home to raise children and are involved in an accident at that point?

I'm concerned that the legislation also doesn't cover impairment of earning capacity or competitive edge. I

represent an engineer who, as the result of an accident, suffered an injury. He was able to go back to his job, which was modified so that he could remain in the office and work at a desk, but he was unable to continue to go to the job site. Clearly, his ability to advance in the company, his ability to earn, his marketability if he's ever let go from that one position, are impaired. I'm concerned that this kind of real economic loss is also not addressed.

Small business people who are forced to close their business for a short period of time and then go back and open it up: There's the real issue of loss of customers, loss of key employees and losses they will incur once they start their business up again. The legislation, I'm concerned, does not allow for losses for raises based on inflation or for promotion. Also, the loss cuts out automatically 15% of the net income, which is real loss that people who are involved in accidents and unable to work are just giving up.

Our suggestion here is that the issue of real economic loss, real financial losses, should be left completely open for full recovery through the tort system. We're not offended by a lesser amount of no-fault benefits for economic loss to keep the person going while the tort case is being decided.

1450

Ms Carpenter-Gunn: The next area we'd like to look at is the various notice provisions that appear in the act and the regulations. I have real concerns about two specific notice areas, and one is the notice that within 120 days of the accident the victim is to put the tortfeasor on notice of the claim, and if that doesn't happen, there's a real problem in terms of prejudgement interest flowing from any damages arising out of the accident.

In our experience, more often than not we never even see a victim within 120 days of an accident happening, so what I see coming out of this particular section is that we are going to have application upon application to the courts, which are already overflowing at the seams, for a judge to direct that despite the fact that notice was not given within the 120 days, the victim has the right to have that prejudgement interest.

I'm not quite sure where this section came from. Under the Courts of Justice Act, which deals with prejudgement interest, that's a discretionary item in any event; it's not an automatic that the plaintiff obtains prejudgement interest. I don't know why we have these new notice provisions having to do with it.

Once the notice is given, assuming the person's even at our door within 120 days, there's a whole raft of bureaucracy that kicks in, including defence medical examinations—in the plural, not in the singular. My concern, from a practical point of view, is that we're going to have a situation where, if we do have someone with the 120 days, we're going to be dealing with the no-fault carrier with respect to the treatment plan and their reaction to it. Assuming what normally happens, they won't like the treatment plan and they'll be sending our client off for an IME. Because we've put the tortfeasor on notice within 120 days, we have another insurance company that's going to elect to send our victim to various doctors for observation and report writing.

We're going to be so diverted here in terms of what the various doctors are saying, and we're going to lose sight of what the important issue is: getting the treatment for the person. I have a real concern that the control for the treatment of the individual is being taken away from the person who should have control of it, that being the family physician, usually, and the treating specialist that he or she may have sent the person to.

There's another notice provision in here for which I'm not quite sure what the consequences are, but it says the person's supposed to give notice within seven days of the accident happening if he or she is going to access the no-fault rehab provisions. In my experience, quite often the individual doesn't know within the first seven days whether he or she is going to have need for the no-fault rehab provisions.

For most of these time lines, the seven days and the 120 days, most victims of accidents have never even seen legal counsel, so how in the world is he or she supposed to know that these provisions are there? It leads to a highly inequitable, unjust situation. They're going to be raised, one can be sure, down the road by the insurance companies, yet the public's not going to know about it. On the other hand, if the insurance companies are going to spend a fortune advising people of these rights under these sections, we're going to have a flood of cases and increase the number of claims we presently have. Whichever way it goes, I see a very unfavourable result.

Ms Waxman: I'm also concerned that there does not appear to be any provision to allow for dependency claims upon death, which means there does not appear to be either the ability to obtain no-fault benefits or to sue for people who are dependent upon a breadwinner who was killed as a result of the car accident. They can't sue or obtain benefits for the loss of support or for the financial contribution this person made to the livelihood of the dependant.

Ms Carpenter-Gunn: Another area of concern is structured settlements. It's not clear to me, in the material we've been given, what types of damages are to be covered by the structured settlement proposals. You should know that whenever there's a structured settlement at present, there's increased paperwork and attendance before a judge for approval. I don't know whether that's what's being contemplated here. You should also know that we normally use structured settlements in situations where we're trying to deal with offsetting gross-up. Perhaps Mr Sampson or someone from the government can assist me as to what types of damages are being contemplated here.

I'm very concerned. If what's being said is that all damages should be encompassed within structured settlements, that seems to me to be a very paternalistic attitude and one that would be inherently unfair to a victim if perhaps he or she had a huge debt load at the time of the accident and in fact a more prudent, conservative approach would be to pay down their debt. As I say, there isn't enough information before us for us to speak specifically as to the proposal restructured settlements, but certainly I'd wave a caution flag that it would be very unfair to have a mandatory policy that one would have to

structure moneys that fall into certain categories of damages. That's really the only thing I want to say there.

The only other matter is that when we do structures, typically the tortfeasor insurers take a discount on the moneys being paid, so it certainly is to the insurer's advantage to have structured settlements as opposed, in some cases, to the victim's advantage. I can see that from an income tax point of view, it's sometimes a very prudent thing for people to do, but in our democracy, I tend to like options for people as opposed to dictatorships for them in terms of what they have to do with their moneys arising out of an accident that was no fault of their own.

Ms Waxman: With respect to the \$15,000 deductible, my understanding was that the purpose of the deductible was both to reduce costs and also to rid the system of insignificant claims. I'm concerned, however, that it appears that many claims for contributory negligence are taken off and then the deductible is taken off. With that method, you're not achieving the purpose of ridding the system of insignificant claims. Rather, what you will be doing will be depriving seriously injured victims from compensation for pain and suffering. I would suggest that the deductible come off first and then the reduction for contributory negligence.

Ms Carpenter-Gunn: Last, another matter that I see heading us towards a recipe for disaster is part XII of the regulations. Part of my concern may very well be that there isn't a whole lot of information provided there. This is the particular regulation dealing with the responsibility to obtain treatment, participate in rehabilitation and seek employment.

It's unclear to me, upon my review of it, who is going to be in the driver's seat as to whether the individual victim has breached, encroached that particular section of the regulation. Who's going to be dictating when that occurs? It has a very far-reaching effect to the victim in that their benefits are then reduced 50% if it's deemed they have not obtained the appropriate treatment and participated in rehab. Is it being suggested here that someone six months out from the date of the accident is obliged to mitigate their damages, cut down their damages, and take a job doing a far lesser status type of work than they were doing at the time of the accident, despite the provisions of the regulations in the other areas, that is, two years for the lost income being paid while you're unable to do what you had at the time of the accident? I'm concerned what abuse will result from part XII of the regulations.

As I say, it's not clear to me whether that person's supposed to return to any form of work. We've seen from other provisions under Bill 164 and to a lesser degree under OMPP where we get into this difficulty time and time again as to who is controlling the situation, who is calling the shots, and then we end up in mediation and then from mediation into arbitration. So that is a concern.

One final point. It appears from the material we've been given that with the motions with respect to threshold, as I read it—and I may be misreading it—they're contemplating that the judge, he or she, at first instance is to decide, "shall" decide, whether the person's over the threshold.

My concern there is that defence counsel for the insurance companies could bring a motion at a very early stage. We, the plaintiff's counsel, have the burden of proof. Usually, at that very early stage there's not an overabundance of information, and if what's being contemplated is that we're telling a judge what he or she shall do and they're forced to make the decision at that point as opposed to deferring it to the trial judge, I think we're going to see a great many unfortunate situations where people who have very significant injuries could be shut out at that early motion stage. I applaud the government for trying to rectify the difficulties of the present motion legislation, but I don't think that's the solution we want, and I can't imagine any legislation telling a judge what he or she "shall" do, in any event.

We'd welcome any questions from the committee, and we thank you for affording us the time today to address these concerns we have.

The Chair: Thank you very much. You have used up the 20 minutes in your presentation, so there won't be time for questions, but I believe there was one point of clarification. Did you want to make a comment on that?

Ms Carpenter-Gunn: Perhaps it was structured settlements?

Mr Sampson: There are a number of points of clarification. I don't know if I should be chewing up time—

The Chair: We are out of time. Perhaps you could respond to them in—

Mr Sampson: Yes, why don't we respond without eating up the other people's time. I'd be happy to meet with you afterwards. Are you giving us something in writing?

Ms Carpenter-Gunn: We can afterwards, yes. Thank you, Mr Sampson. Thank you, Mr Chair.

The Chair: Thank you very much, Ms Waxman and Ms Carpenter-Gunn.

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COLUMBIA HEALTH CARE INC

The Chair: Our next presenter is Columbia Health Care, Mr Allan Walton. Welcome to the committee. We have 20 minutes together.

Mr Allan Walton: Thank you, and good afternoon. I'll attempt to leave time for questions. My name is Allan Walton, and I am the senior vice-president and chief operating officer of Columbia Health Care. I would like to thank you for the opportunity to appear today. I'll begin with a brief outline of what Columbia does, where we fit into the auto insurance system and our views on the proposed changes.

Columbia Health Care operates 19 clinics in Canada, 16 of which are in Ontario. Columbia is one of the largest suppliers of rehabilitation services in Ontario. We offer wide geographic coverage and provide a comprehensive range of services. Columbia has a superb reputation for the quality of care we provide and is one of the few facilities in Canada accredited by CARF, the Commission on Accreditation of Rehabilitation Facilities.

Columbia provides interdisciplinary rehabilitation services to clients with work, sports or motor vehicle-related disabilities. All our revenues are obtained from private

sector payors, including employers, automobile and other insurers, and the Workers' Compensation Board. The company has established a reputation for excellence and achieved a high level of consistency in its treatment protocols across all clinics. As a result, a growing number of major nationwide employers and insurers have designated Columbia as a preferred provider for rehabilitation and health services. As well as being one of the largest providers of rehabilitation services, Columbia is the first private company to establish a comprehensive neuro-rehabilitation centre in alliance with a public sector health provider: a large public hospital. We pride ourselves on our excellent relationships with government, WCB and insurance companies.

Our mission statement is to constantly strive, through innovation, to provide people with the best possible treatment, delivered by professional, experienced staff, utilizing a client service interdisciplinary model. The company's goal is to offer cost-effective rehabilitation to patients that will return them to meaningful activity.

In terms of the government's proposed automobile insurance changes, first let me say that Columbia supports the government moving forward with changes to the current system. We have studied the government's proposals carefully and we are supportive of the approach the government has taken. However, we do have some questions on the legislation and would like to offer our suggestions for changes to the draft bill and regulations.

Columbia, like many groups and individuals, has concerns about the current system. We are concerned that the premiums paid by motorists are too high. We also believe that the benefits available are too generous and represent a disincentive to rehabilitation and return to work. We feel that the goal of any insurance system, tort or non-tort, must be to compensate for actual loss and return the individual to the pre-accident state as quickly as possible. Insurance should not be viewed as a windfall.

As a company that has experience in both a tort and non-tort environment, we caution that any return to a tort system without adequate thresholds and safeguards will lead to higher costs. While we are supportive of many of the administrative improvements contained in the bill, we are concerned about the provision that will require an individual to serve notice of a tort claim within 120 days of accident. We believe this will increase the number of tort claims, as individuals will file claims before rehabilitation is complete in order not to lose the right to sue.

We have particular concerns that the current benefit of \$1 million for rehabilitation in all cases is too generous. Based on our experience, this encourages abuse. We also have questions regarding the process for the initial assessment of claimants. Under the proposed legislation, a rehabilitation plan must be sent to the insurer within six weeks of the accident. However, a plan cannot be effective without an assessment. In the proposed bill, there is no indication of who will cover the costs of that plan. We believe this is an issue that must be addressed if the current legislation is to be successful.

We are also concerned that the definition of "catastrophic injury" is unduly restrictive. For example, to be defined as a catastrophic injury, the proposal requires a total loss of vision in both eyes or the loss of both arms

or legs. However, an excellent clinical case could be made that the result of the loss of one eye, one arm and multiple orthopaedic injuries, while viewed as catastrophic, would be excluded under the proposed definition.

Columbia also believes that the current issues surrounding the designated assessment centres, or DACs, are not addressed in the new legislation. The basic questions of control, accreditation, training, licensing, delivery and standards of service need to be specifically addressed. We believe it is of utmost importance to the system that all DACs deliver high-quality service to all parties, especially clients. Insurers have also expressed a number of concerns about DACs. What seems to be lacking are, to be blunt, commonsense controls. One suggestion has been to establish a rotating roster of DACs, accessed by a 1-800 number. In this system, the client would be sent to a centre at random in their geographic area, rather than having the client referred to a DAC selected by the insurer or client, which is what currently goes on.

The government's current proposal also does not address the issue of accreditation of treatment centres. We hope the government will look at establishing some form of accreditation, as the current system is largely unregulated. The only regulations in the industry are those covering the professionals, which are administered by the various professional colleges. In Alberta, WCB requires CARF accreditation of rehabilitation centres in order to access funding, and this is true of a number of US states.

We believe it is important for all parties to have an accreditation system of the highest quality; however, we understand that this may not be a task that the government itself wishes to undertake. One proposal would be for an overseeing body to issue a request for proposals setting out the important accreditation issues in motor vehicle accident rehabilitation. This would allow many interested organizations to be selected as a recognized MVA accreditor.

We at Columbia are also concerned about conflict of interest. We believe there is an issue of conflict when the ownership of a facility puts a practitioner in direct conflict with another part of his or her professional dealings. It is important to the integrity of the auto insurance system that no DAC or treatment centre be perceived as having improper links with any group or party that could benefit from a referral or any other transaction. It is important for the system that all parties have faith in the DACs and their treatment facilities. We believe it is important that the issue of conflict of interest be examined closely and that some regulation or disclosure of interest be required.

A further issue we would like to draw your attention to is the interim plan of treatment that is in place while the DAC assesses the reasonableness of the treatment plan. One suggestion is to allow treatment to continue during the DAC process, but payment would only be made if the DAC report approves the treatment plan. This suggestion would also deal with the situation where the DAC time frame exceeds 30 days and the treatment plan would have been approved. Interruption of a reasonable

treatment plan is not only unfair to the claimant but ultimately increases costs.

In closing, I would like to reiterate our support, as a major rehabilitation company, for this package. We believe the current system does not function well and that there are disincentives to rehabilitation. We think the proposed system will remove those disincentives and will result in a better auto insurance system in the province. We hope the issues we have raised are helpful in your examination, and I would be pleased to answer any questions you may have.

1510

Mr Wettlaufer: Mr Walton, I have two brief questions. The cost of health care rehab has gone up dramatically over the last few years. Could you indicate to us why you think it might have risen so dramatically, and second, what would you do to control those costs in the future?

Mr Walton: I think it's risen dramatically because the control for those rehabilitation expenses has shifted, really, to the attending physician and ultimately to the rehabilitation providers. Speaking as a COO of a company in this business, we have virtually complete freedom in what we want to do. The family physician has not acted as an adequate gatekeeper. As a consequence, there's been a proliferation of rehabilitation providers.

What would I recommend we do? I would recommend that we put stiff controls in terms of accreditation of facilities, using an outside body to monitor that. The real difficulty in the past has been that the physician has not been a good gatekeeper. The insurance company has a conflict, and frankly so do we as rehab providers. We've never seriously looked at a system of controls that sees outside monitoring by a non-profit organization.

Mr Wettlaufer: You say, "We are concerned about the provision that will require an individual to serve notice of tort claim within 120 days of the accident," and that you believe it would contribute significantly to an increase in number of tort claims. What would you suggest as to the number of days?

Mr Walton: My background is clinical, not legal. If I had to take a stab at it, I would probably say one year. My real concern is that to cover the bases—many times rehabilitation is not complete; many providers don't even get the patient up prior to that time—what will happen is that everybody will file a statement of claim to make sure they're safe. If I had to pick a time, what would it be? Would it be six months or a year? There's a lot of complicated legal issues. Off the cuff, as a citizen, I would probably say a year.

Mr Wettlaufer: Would six months cover most of the people you would see, for instance?

Mr Walton: No, not the more complex ones. The reason is that if a patient is referred to acute physiotherapy and they're successful, they will be successful within that time frame. If they are unsuccessful, it may be very close to the end of that time frame before they are referred to a facility that deals with more complex issues.

Mr Crozier: Thank you, sir. I'm interested in your comments on conflict of interest, because that is an issue of concern. But I'd like to ask you about the interim plan of treatment and the treatment plan. Just so I completely

understand what you've said, "One suggestion is to allow treatment to continue during the DAC process, but payment would only be made if the DAC report approves the treatment plan." Is there an element of risk in there for the treatment giver?

Mr Walton: Yes, there should be, in my view. The risk to the treatment provider would be that the treatment plan as proposed would not be accepted as a reasonable plan; in which case, had treatment continued based on that plan, funding would not be forthcoming to pay for that. Providers who have confidence in their assessing ability and in their treatment plan would continue with treatment in the comfortable knowledge that a DAC, should that occur, would approve that plan. There may be a small percentage of cases where it's a legitimate clinical difference of opinion, but I think that would be acceptable.

Mr Crozier: Do you know if any other treatment providers share your opinion?

Mr Walton: I believe they do. I was the founding member of the Canadian Association of Rehabilitation Centres; I stepped down to become chair of the accreditation committee. I believe that my fellow members share my view in terms of the mechanism to reduce interruption of rehabilitation services, but I believe the current president of that association will be speaking in front of this group.

Mr Crozier: That's certainly a bold suggestion, and I give you credit for having put it forward.

Ms Castrilli: We had previously the Ontario Society of Occupational Therapists, whose evidence or testimony was that when they looked at the bill they thought one of the deficiencies was that it didn't define health practitioner broadly enough, didn't include all the individuals who would be giving treatment. They would like to see something in the legislation that included all regulated health professionals and other service providers in that definition. Would you agree with that?

Mr Walton: I'd have to hear their proposal in more detail, but the concept of including all regulated health professionals would not be inconsistent with what we're trying to do, which is to bring some control to the industry.

Mr Silipo: Thank you very much for the presentation. I just want to make sure I've understood you correctly in a couple of areas. You're saying that as a supplier of rehabilitation services in Ontario, you would actually prefer to have someone else approve the rehabilitation plan you're providing?

Mr Walton: Yes.

Mr Silipo: Because you think that diminishes the potential for abuse, or it means there is greater security of that plan being what is necessary? I don't want to put words in your mouth. Why?

Mr Walton: Yes for both of those. I think what we have now is an unregulated, undifferentiated rehabilitation industry. There are very good providers and there are not-so-good providers, but they have the freedom to virtually provide whatever service they want and the mechanisms under Bill 164 almost guarantee payment for those services. There is no mechanism currently to have an adequate review of their treatment policies or their treatment

plans. We believe it will not only save costs in rehabilitation but will require those who are offering substandard service, either through lack of interest or through financial conflict, to bring their service provisions up to something that would meet an outside standard.

Mr Silipo: Who are you suggesting should provide that direction or that approval?

Mr Walton: I think there are a number of groups interested in doing that. There is Curran Accreditation, for example, out of the United States. We have groups in Ontario. For example, the Institute for Work and Health, the various colleges, have all exhibited an interest in accrediting. I would suggest, and it was part of our recommendation, that an independent body, perhaps the OIC, put forth the proposals salient to auto insurance and that any number of groups could step forward looking to be a motor vehicle accident accreditor. They would have to demonstrate that their accreditation process adequately addresses those issues that are particular to motor vehicle accidents.

The Vice-Chair (Mr Tim Hudak): I'd like to thank you, Mr Walton, for your presentation before the standing committee today. Have a good day.

ASSOCIATIVE REHABILITATION INC

The Vice-Chair: The next delegation is from Associative Rehabilitation Inc, James Campbell. Welcome to the standing committee.

Mr James Campbell: While there are positive changes provided in the proposed new automobile insurance legislation, there are also some potholes for people with disabilities.

I'm the president of Associative Rehabilitation Inc, ARI. We have provided disability management to motor vehicle accident victims since 1981. We are the oldest and largest Canadian-owned rehabilitation firm. We have provided service to over 16,000 Canadians with disabilities. We obtain our referrals from insurance companies, lawyers, employers, government agencies, doctors and individuals injured in motor vehicle accidents. ARI has presented to the standing committees on OMPP and Bill 164, and is now making a presentation to this committee.

Having extensive experience working under the standard Ontario automobile policy, OMPP and Bill 164, we feel that for the most part this draft legislation constitutes an equitable resolution to the problems that permeated previous automobile legislation. We do, however, have some comments and would like to share these with the committee. We will confine ourselves to rehabilitation issues and assume that you have heard from the insurance, legal and medical communities in detail. Our focus will be on the vocational rehabilitation and case management issues presented in the draft regulations and their impact on people with disabilities.

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When Mike Harris, MPP, spoke to the insurance brokers of Metropolitan Toronto on February 9, 1995, he stated:

"We're going to repeal Ontario auto insurance Bill 164.... We're going to set weekly accident benefits at a reasonable level for the basic accident benefit coverage....

We're going to facilitate optional benefits 'top up' coverage.... We're going to restore tort for significant economical loss in excess of the no-fault benefit.... We're going to modify payments for rehabilitation and medical expenses to differentiate between serious and less serious personal injuries. Our rationale is just common sense."

These promises have been accomplished in the draft of the accident benefits submitted February 9, 1996, through the Ministry of Finance.

As a rehabilitationist, I do not agree with a diagnosis or injury-based definition of "catastrophic." Depending on the interpretation of clause (f) of the definition, there may be many disabilities with severe functional limitations that do not meet the definition. For example, mild head injury or multiple severe fractures can be devastating injuries from a functional point of view but would be restricted to their entitlement to benefits under the current classification system. I understand that the committee has heard from the Ontario Society of Occupational Therapists today, and they may have some suggestions as to alternative types of definitions.

I would like to comment, however, that given the proposed definition and the associated expenditure limits, the average, if not most, injuries will find sufficient access to funds in the legislation. I am only pointing out that this legislation will not satisfy all the needs of people with disabilities originating from motor vehicle accidents.

The average wage in Ontario is just over \$610 gross per week. Given the benefit levels proposed by OMEGA, being \$450 per week and 90% of net, I am surprised that the Ontario government is now proposing a lower limit of \$400 per week and 85% of net. The levels set by the OMEGA plan would seem to be closer to the actual needs of the average motor vehicle accident victim. However, I suppose one cannot argue this point too stringently, given that the right to sue for economic loss for not-at-fault accident victims and the opportunity to purchase optional coverage exist and all benefit levels will be reviewed by the minister every second year.

As a rehabilitationist, one could argue that a drop to \$75,000 as a basic benefit, with a 10-year limitation, is excessive. However, on average, the people that we see never reach \$75,000 in medical and rehabilitation expenses. Again, given that some not-at-fault accident victims with higher needs than these proposed coverages will obtain funds through the restoration of tort and that there are increased optional coverages available to motorists, some of the potential problems have been addressed. The legislation as proposed will not, however, satisfy all of the needs of people with disabilities suffered in motor vehicle accidents.

We do applaud the opportunities being provided to the public to purchase coverage for enhanced accident benefits. However, the government must take appropriate measures to ensure that these additional coverages are offered at an affordable rate and are offered to the public on a consistent basis. In the past, optional coverage for accident benefits has not been handled well throughout the industry.

We have an issue with the emphasis being put on designated assessment centres as a procedure for dispute resolution. While we like the fact that the insured has a

duty to obtain treatment, participate in rehabilitation and seek employment, we feel that the DAC system of dispute resolution is ineffective at present and cannot see how it could be a more effective way to resolve difficulties. The mere introduction of a committee to oversee it will not solve the problems inherent in this system. We feel that there may be unnecessary delays with this system and would urge you to reconsider a different format for dispute resolution rather than this unwieldy bureaucratic process.

While we understand that those who have been involved in presenting this draft legislation and in putting together OMEGA have given some thought to the setting of medical and rehabilitation fees, there has been little in terms of consultation with the providers of these services. If the OIC is to venture into fee-setting, I hope it does so after significant consultation with providers. Better yet, the OIC should stay away from fee-setting altogether and let market forces bring what may.

We are wholeheartedly in agreement on the Ministry of Health releasing a discussion paper that proposes that health professionals disclose conflict of interest to claimants, insurers and professional colleges. We have had grave concerns over conflict-of-interest matters, and while the Task Force on Rehabilitation and Long-Term Care Benefits touched on this issue, it was never followed through in a legislative sense. For rehabilitation to be successful, the process must be objective and done independently, at arm's length from the claim. Any claim system is inherently adversarial and the rehabilitation process that works on the side of the insurance company or works as advocates only for people with disabilities can only bring subjectivity to the process.

Some of my insurance colleagues have suggested that a simple declaration of conflict of interest is still not sufficient to protect the person with a disability. I have enclosed copies of the "conflict of interest" definition provided in the April 1993 Report of the Task Force on Rehabilitation and Long-Term Care Benefits, and I applaud their efforts to try to ensure that ownership between insurers, lawyers, doctors and various treatment providers and assessors is openly declared and avoided when possible.

I am practical enough to believe that it is impossible to develop a system that will provide all of the right answers to all of the possible problems. Overall, I believe that this system has been developed fairly well. Without having worked in this new system yet, I would score the system a B+. It is not an A, but it does meet the criteria established by Mike Harris and it is expected to meet the rehabilitation needs of most people. Find a better dispute resolution process than the DACs and ensure that not only health providers but insurers, lawyers and other providers involved in dealing with accident victims deal appropriately with their conflict-of-interest positions and the system will be even further improved.

Thank you for the opportunity to present today.

Mr Crozier: Under the designated assessment centres, I recall that a year or so ago when I was discussing it with claims adjusters in the insurance industry there was a great deal of concern about the designated assessment centres and the role they play and how efficient they are.

You as well have suggested that there are unnecessary delays with the system and you're urging that we reconsider a different format for dispute resolution. Do you have any suggestion, through your experience, on how that format should take place?

Mr Campbell: Unfortunately I'm not able to sit here today and offer you a great solution to dispute resolution. I am more comfortable saying that the DACs in their current format probably aren't going to provide the service that you want them to. I believe some kind of arbitration process that works efficiently, quickly, to solve the problem might be a better format.

Mr Crozier: And that's fair. Your experience is that it doesn't work very well, so we should put our heads together and try to come up with a better method. That's fair enough.

Mr Kwinter: I think you'll acknowledge that all of these exercises over the past 10 years have one common theme, and that is to provide insurance at an affordable price to the drivers of Ontario, who are mandated that they must have insurance. Otherwise, you'd let the market do whatever it wanted to do. But because it's compulsory, the government has an obligation to make sure it stays affordable.

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There seems to be a contradiction. On the one hand, when you talk about the optional coverage, you suggest that the government should ensure that these additional coverages are offered at an affordable rate, and then when you talk about fee schedules for the services that are being provided, you say, "Let the market forces bring what they may." Can you explain to me why on the one hand you say let the market go, whatever it gets is fine, and on the other hand you say the government should ensure that the fees schedules stay affordable?

Mr Campbell: I think you're asking a rather philosophical question. I believe that insurance is compulsory. There are certain benefit levels that will be set for people. Part of the problem I see with the optional coverage is that you're probably going to get a small pool of people purchasing the optional coverage. I think the general public has a tendency to believe that they'll never be involved in a motor vehicle accident, and it's a benefit that they probably won't need to have. I think the general public continually screams for lower insurance rates all the time without realizing the consequences on the other end. I probably could say a non-regulated insurance system might work very well; a market-based, a market-driven insurance system with little government involvement might work really well.

Mr Silipo: Sir, in a couple of places—more than a couple of places, I think—you make the point that you support generally the direction of the changes, but you say, for example, under the definition of "catastrophic" that the new definition would pick up most situations, but there may be some that it would not pick up, and you have some concerns there, if I've understood you correctly. Later on, you make the same point with respect to the income replacement benefits, that they will pick up most of the situations but there are still some people who will be left out of that. Again under the medical rehabilitation you're saying that the \$75,000 threshold will cover on

average the people that you deal with but there may be some who are above that.

I'm assuming, therefore, in the situations in each of those three categories and others, that we're not talking about large numbers of people who would be outside of that in those three areas, so I guess it begs the question from my perspective of why we need to make these dramatic changes if we're only talking about a relatively few number of people in each of those areas.

Mr Campbell: As a rehabilitationist, I would rather see the system err on excess treatment, if it had a choice, rather than undertreating a patient. I think it is a shame should somebody require a service and because they have exceeded the caps they're no longer entitled to it. It's a difficult call to set a limit or a cap and to try to please all of the people, but clearly there will be people with legitimate disabilities that will not get the service that they require because of the cap and definition of "catastrophic."

Mr Silipo: So you would agree that in fact leaving the definitions more broadly or leaving the cap at a higher amount would be more sensible than trying to bring it down, when in fact by bringing it down we're not—the number of people who are being excluded would not be large in the overall scheme of things, but it definitely would cause hardship for some people.

Mr Campbell: Exactly, cause hardship and may in fact not be a legitimate financial reason to bring the caps down to—

Mr Silipo: Right, because presumably if there's a problem with costs—and we've heard a lot so far even in the few hours that we've been here about the rehabilitative costs being one large factor—if we're only talking about a relatively small number of people who are above those thresholds now, then presumably that isn't where the bulk of the problem is. In other words, if we have those cost problems now, we're going to still have them even after we've lowered these thresholds in each of those areas.

Mr Campbell: Exactly.

Mr Silipo: The other part I would add to that is, to me it's particularly more clear on the question around the income replacement benefits where it seems that what people are going to have to do—and there I guess is the clearest area where people can see it and make an immediate decision, and that is they'd have to calculate whether on the basis of what they're earning now it makes sense for them to have to purchase additional coverage. There at least they can see it.

I worry about and I would argue if that's going to happen it's likely going to offset any reductions they might otherwise get, which brings us back to the question of cost overall against a product that people are getting. I worry on some of the other areas around, for example, the medical rehabilitation and attendant care benefits where again there's an option to purchase beyond, but initially, it seems to me, people aren't going to be thinking necessarily about that and the fact that they may need more than that threshold. They may, you know—most people will not—but again, who's to know where each of us is going to fall in terms of those needs as we get into our cars and go about our ways.

Mr Sampson: I appreciate you providing the government with a grade of B+. I'll tell you that my response to that grade is like it has been in the past when I've received other grades in my life. I'm glad this is only the mid-term and not the final exam.

I want to talk about treatments and treatment protocols and treatment plans. Part of what we're trying to bring forward is—and it may not be terribly obvious in the legislation—a committee that will deal with the DACs, but I think also be charged with the responsibility, as it should, to establish appropriate treatment protocols so that those who are delivering the treatment plans know a general roadmap to follow in dealing with an injury and an injured person. Do you see any common sense in having the treatment protocols established in a more definitive format?

Mr Campbell: One of the suggestions I've heard from people at the Canadian Association of Rehabilitation Personnel is that there should be a standardized IWRP, individualized written rehabilitation plan, that is set down on paper and brought forward, freely available, for all parties to review and discuss. I guess what I do object to are the potential delays that the DACs might then introduce. I'm not sure, if the insurer decides to appeal most treatment plans that are being brought forward, that the DACs are the appropriate system to do that through.

Mr Sampson: I guess where I'm coming from is that they wouldn't if the treatment plans were in accordance with the protocol that they were part and parcel of establishing. It would be very difficult for them to say, "Well, I've got troubles with this treatment plan," when it in fact maps out quite closely to a protocol that they were part and parcel of creating and establishing.

Ms Nancy Gowan: I think what you're saying is that there should be standardized protocols, standardized treatment plans for most injuries and illnesses. Is that what you're saying?

Mr Sampson: To the extent you can, yes.

Ms Gowan: I guess the difficulty there is in terms of the learning that we talked about earlier that's happening in the industry. There are not necessarily standardized treatment protocols. I think what the last speaker spoke about was in terms of accreditation systems, and systems in place to be able to make sure that the provider is following the most up-to-date protocols are probably your best bet. You're not going to be able to have a standardized treatment for every whiplash injury or every mild head injury, but yet being able to have a process where you're sure that that process is in place for accreditation of that facility or of that provider, that's going to be more of a suitable way to make sure that they're following appropriate protocols. You also have, with regulated health professionals, the colleges to ensure that they're following the best standards of practice. So there are several systems there to help with that. I think you have to be careful that you're not going to be able to set specific protocols in every situation.

Mr Spina: Just quickly, I wish we could all have a B+ all the time, and you've done a good job as well.

Just to shift for a moment to the timeliness of the delivery of rehabilitation, under the proposals do you

think that we can make that delivery a little more timely without opening the door to more expensive processes?

Mr Campbell: I think in rehabilitation time is of the essence. I'm sure you've probably heard people today talk about early intervention and the need to get in soon following an injury in providing the services that are required, and that should in turn provide you with better outcomes. As a rehabilitationist, I guess what I worry about is again the DAC, the dispute resolution process, slowing that down and then in the longer term doing the injured person a disservice.

I still believe, contrary to what Mr Walton had to present before me, that a lot of the treatment should be left with the attending physicians and the attending regulated health professionals and that there should be an emphasis on getting that treatment started quickly and not delaying it. I think that in itself will cut down on costs in the longer term.

The Vice-Chair: On behalf of the standing committee, thank you for your presentation today on auto insurance. Have a good day.

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ONTARIO PSYCHOLOGICAL ASSOCIATION

The Vice-Chair: The next delegation before the committee is the Ontario Psychological Association—Dr Ruth Berman, Dr Ronald Kaplan. Hello and welcome.

Dr Ron Kaplan: We have a change of names and I'll announce the changes. Mr Chairman and the members of the committee, I am Ron Kaplan, psychologist, co-chairman of the Ontario Psychological Association task force on automobile insurance. With me are Dr Greg Hamovich, president of the Ontario Psychological Association, and Dr Faith Kaplan, member of the board of the Ontario Psychological Association and our task force on automobile insurance.

The Ontario Psychological Association is the voluntary organization which, since 1947, has represented the profession of psychology in Ontario. Our membership of approximately 1,400 includes clinical and academic psychologists, psychometrists and graduate students in psychology. Psychologists hold doctoral degrees and, as service providers, have been independently regulated under statute in Ontario for over 35 years. Currently, we are regulated by the College of Psychologists of Ontario under the Regulated Health Professions Act.

Let me begin with a personal comment: We are all here today because of the immensely destructive power of the automobile. Although our road transportation system is liberating and enriches us all economically, it produces countless personal tragedies. Indeed, automobile accidents produce the largest number of years of life lost of all causes of death up to age 65. Our challenge is to balance the costs of driving with the realization that each of us is a potential victim of automobile accidents, and we all want the best possible care after such a tragedy.

It's a pleasure to have an opportunity to express the viewpoint and concerns of professional psychologists regarding accessibility to health and rehabilitation services in the proposed legislation.

Firstly, we have been gratified with the openness of the Ministry of Finance and its staff to a wide range of

stakeholders in the last six or seven months. One of the particular satisfactions of work in this area of public policy and legislation is the receptivity we of the OPA have always encountered at the Ministry of Finance and the Ontario Insurance Commission. My co-chairman of our auto insurance task force, Dr Snow, who is currently in Florida, and I had the opportunity to present before this committee in 1989 and 1993 during the debates over Bills 68 and 164. I welcome the opportunity to speak to this committee again.

Members of our association provide psychological services to accident victims and their families. Psychologists provide a range of specialized assessments, treatment planning, provision and evaluation as well as rehabilitation programs in the following areas: brain injury, traumatic psychological disorders, depression and anxiety disorders, chronic pain and its consequences, adaptation to physical impairments, bereavement, childhood trauma and injury, vocational disruption and reintegration, disability determination, and consultation with other health professionals, insurers and lawyers.

This past summer, Mr Sampson, the parliamentary assistant to Mr Eves, asked all of the stakeholders the following: (1) to propose reforms whereby treatment and rehabilitation benefits could be related more closely to severity of injury and impairment; (2) to suggest means to limit excessive treatment provision; and (3) to indicate how health professionals could be more fully involved in monitoring treatment appropriateness, reasonableness and effectiveness.

We responded to this challenge by developing a full auto insurance reform proposal which we called ALPHA. The ALPHA proposal was the official submission of the Ontario Psychological Association to the Ministry of Finance. The heart of the proposal was: (1) a three-level system of health care rehabilitation benefits based on severity of injury impairment; (2) service provision based on explicit treatment plans by regulated health professionals; (3) health professional peer review by a streamlined designated assessment centre, DAC, system.

The government's legislative proposal includes the latter two principles—access to health care by treatment plans and the use of health professional peer review. The government has taken a clear stand to protect access to health and rehabilitation benefits by not providing a veto over health care services to insurers, as was proposed by the Insurance Bureau of Canada. Denial of access to necessary care by insurer veto was a key concern voiced by Justice Osborne in 1988, based on his evaluation of the failure of the prior tort system to provide available health care benefits.

We also want to congratulate the government for continuing to provide basic health care and rehabilitation while not unduly offloading costs of health care for accident victims on OHIP.

Now with respect to ALPHA's third proposal, we understand how difficult it is to create a three-level system of benefits. However, the reason for the middle level in the ALPHA proposal, up to \$150,000, was to ensure that those with multiple moderate injuries or severe injuries which failed to meet the catastrophic test, approximately 2% of accident victims, would have access

to the services they need. Overall, the health care rehabilitation benefit has been reduced by massive proportions, a reduction of 93% for approximately 99% of accident victims. Our fear is that the more this benefit level is reduced, the greater the number of injured victims who will go without treatment.

We are pleased to see that there is no discrimination against those with psychological injuries in the definition of impairment criteria for benefits—"impairment" means a loss of abnormality of a psychological, physiological or anatomical structure or function—in the draft regulation. Unlike some previous threshold language, there is no exclusion from tort claims for those with serious, post-traumatic psychological disorders. However, there is discrimination against those whose injuries are psychological rather than physical for access to urgent care within the first six weeks post-accident. I want to make a few comments about that.

The Ontario Psychological Association has a specific concern regarding the ability of our members to provide psychological services to traumatized accident victims in the first six weeks after an accident. Psychological services may be urgently needed in situations of traumatic death and acute stress disorder as well as catastrophic injuries to family members. Timely intervention is considered a hallmark of good mental health care. Provision of urgent care reduces the severity and chronicity of post-traumatic disorders with their resulting financial and personal costs. Rapid intervention supports continuity in work and personal life functioning. This is similar to treatment protocols in other areas. For example, rapid response is considered crucial when treating people traumatized by disaster, violent assault or sudden tragedy.

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We believe it is inappropriate for traumatized accident victims and survivors of accidents to have to wait up to one or two months while a treatment plan is reviewed by an insurer and then possibly a DAC. Psychological emergencies should not be treated differently than early-identified physical injuries. We note that there is access to physiotherapy and chiropractic treatments according to a treatment plan without prior insurer approval within the first six weeks after an accident for up to 15 sessions. We propose that early psychological intervention for traumatized accident victims within the first six weeks of up to 10 sessions be available commencing at the time of a treatment plan but prior to insurer response to the plan.

In conclusion, the Ontario Psychological Association thanks the committee for this opportunity to present to it our viewpoint on automobile insurance reform. Critical to the success of the legislative proposal is the implementation of its central mechanisms: streamlined DACs and DAC review committee. We will continue to offer suggestions to maintain an effective health care rehabilitation benefit system under auto insurance so that Ontarians can expect timely and effective treatment after injury.

Ms Lankin: I'd like to ask you about the alpha proposal. I like the name. It's a good play there, the alpha and the OMEGA, and we've got the various extremes of provisions. The third proposal that you spoke about in terms of creating a three-level system of benefits, I actually think this is interesting and it gets at the

heart of one of the problems I have with the draft legislation as it is now.

The cap of \$75,000 for non-catastrophic—first of all, the ability to get any agreement on a definition of “catastrophic” is problematic. Secondly, there will be people who will require services beyond \$75,000, I think, as you’ve identified, particularly when there are several injuries, maybe multiple moderate or severe injuries, and those people really aren’t going to have the access to benefits that they need.

Yet we know at the same time that the biggest cost driver right now under the no-fault system—and I’m not at all conceding that it wouldn’t have been the same case under a tort system—is in the medical rehab area. From questioning insurance industry representatives over the past couple of weeks, they inform me that it is at the low end of claims, it’s the volume of number of claims that come forward and at the low end; it’s not the ones that exceed \$75,000 and that this cap isn’t going to solve their problem, but it might well prejudice the access to treatment for a percentage of accident victims.

Could you tell me from your profession’s perspective, and particularly multiple injuries that might be psychological and physical, how many people you see who might go over that cap, or is that cap a problem in your perspective?

Dr Kaplan: Yes, as I suggested, we thought long and hard about the issue of tying the benefits to the injury impairment level. We determined, in consultation with our actuary, as best we could, that approximately 2% of individuals would need more than the \$75,000 or \$50,000, which was our level one, but not fit the common definitions of “catastrophic.” So we thought it would be about 2% of accident victims.

In terms of our experience as psychologists, who these people might be, I think I’ve been clear that these are usually people with multiple injuries, a person with a single amputation who, for example, has a mild or moderate head injury and has a lot of difficulty with their stump, needs a number of prostheses and then needs to go back to school and be rehabilitated and has pain over a number of years. So there is a category of people with a combination of physical and psychological and brain injuries who need a greater benefit level but would not meet the test of “catastrophic.”

The problem we faced in proposing a three-level system to the government is it’s difficult to come up with objective criteria to define who fits into these categories, so we proposed that level determination would be by the DAC system. Just as the current proposals suggest that a difference of opinion as to whether a person was catastrophic or not could be resolved by the DAC on the first basis, we thought that assignment conflicts could be dealt with by the DAC system.

Ms Lankin: Mr Sampson, The issue of immediate treatment for psychological treatment plans versus physical—is there a reason why that was excluded from the legislation, or is that something you’ll be looking at?

Mr Sampson: We can look at that, but it was excluded because we were just following the—

Ms Lankin: OMEGA?

Mr Sampson: No, what was available under 164 with respect to access under the pay-pending-dispute arrangement.

Ms Lankin: Do we have any data of problems with that or is there anything that maybe you could share with us with respect to that issue? It’s an interesting point that’s been raised.

Mr Sampson: You mean whether the psychological are included or are not included? There’s no empirical data and I’m not sure what empirical data you’re looking for as to how the injuries classify. We’re prepared to look at the suggestion of the 10 visits. That was going to be one of my questions.

First of all, I want to thank you very much for coming today and also taking the time and effort to put together one of the six full proposals we received. That’s certainly a lot of work you did. I know you worked overnight a couple of times to get it to us in short order and I appreciate that.

We had a couple of concerns when we saw your proposal. One was the name. I guess it forced me to almost follow suit and have a Greek name for this one. You notice we didn’t. I don’t know what the name of this one is. I’ll have a lottery, perhaps.

Second, the definition of “injury” on your three classifications is something that we struggled with, as you know, when you presented it to us. I think I hear from you that’s perhaps something that the assessment centres can help define. Have you done any work since the time we last talked to help us come to grips with how one might classify three categories of injuries as opposed to the two that we’re proposing?

Dr Kaplan: It’s a very difficult issue. We have thought more in terms of the number of injuries a person has. In other words, if a person has several moderate injuries or one or two severe injuries, maybe they could achieve our second level. But once again, it’s hard to have objective criteria. We have thought about it some more and certainly would be prepared to think about it further. We appreciate your continuing interest in that difficult issue.

Mr Sampson: As you know, it’s something we struggled with. The problem is the definition as to when you go from the first level to the second level or to the third level and how those boxes are defined. I guess it’s a lot simpler, and that was one of our objectives, to try to get some level of simplicity back to this. It’s a lot simpler to have two levels, as you know; either you’re in or you’re out of the box. There’s one level of grey. If you have two levels, of course, now there are two levels of grey and some definitional problem for the new category. Whatever you can do to help us out there, we’d appreciate it.

Dr Kaplan: Certainly, one alternative is to look at the catastrophic level, but I do appreciate you don’t want to widen that too much.

Mr Sampson: We tried. As you know, there’s sort of a tailing definition, a catch-all definition for the catastrophic. That was an attempt to try to come to grips with I think what you were trying to do, that middle level of injury, middle class of injury and how one deals with that.

Mr Kwinter: Thank you very much for your presentation. Dr Kaplan, I have to tell you that I agree with everything you've got in it. I have some problems, though, with how you implement it.

One of the previous presenters talked about the whole idea of tort claims within 120 days of the accident and said, "We believe this will increase the number of tort claims as individuals will file claims before rehabilitation is complete in order not to lose the right to sue."

My concern is you've asked that psychological emergencies be treated no differently than early-identified physical injuries. My concern is, how do you do that evaluation? Do you then get to the point where what you're saying is that in order to not be precluded from having it qualified, anybody who might reasonably have a trauma is categorized as an emergency psychological situation? Then you get into the problem that some people who are not—and I'm not saying ethical or non-ethical, I'm just saying, "I've got to protect myself," so automatically classify them as emergency trauma.

Dr Kaplan: Let me address that question. This is only a very small percentage of people who are sent to psychologists. What I did hear is comment on the fact that within the first six weeks, two of the other professions are allowed to begin treatment pending the insurer's review. We're saying that for a very small number of accident victims who are referred to us within six weeks—that's a very tiny number of people, people who have been badly traumatized, a love one's been killed—we'd like to be able to begin work within that six weeks.

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Beyond the six weeks, the regulations are very clear that we write a treatment plan and the insurer says yea or nay within two weeks, and a DAC then has another two weeks to look at it. That's quite acceptable. We're only talking about a few people and I would propose to the committee that we would come back with a detailed description of how we can determine who those people are and we'll come back with an actuarial estimation of what that would cost.

Mr Kwinter: So what you're saying is that the primary care evaluator will submit his plan for the treatment, will make the initial determination that there is psychological trauma, and as a result of that, once that determination has been made, regardless of how long it takes for approval, you want to start treatment.

Dr Kaplan: Only for a certain small percentage of people who have been traumatized, and only within the first six weeks after an accident, not year one, two or three. That's correct.

Ms Castrilli: I'm just curious, Dr Kaplan, not having read your alpha proposal and looking at the comments by the Insurance Bureau of Canada with respect to catastrophic impairment, I wonder how you feel about the definition of "catastrophic impairment" and how it applies to the people that you see.

Dr Kaplan: We don't have the time to discuss a brain injury. I'm a neuropsychologist. We are concerned about the definition by which brain-injured people achieve "catastrophic" cutoff and we're also concerned with the catch-all category at the end of the "catastrophic" definition, how broad that would be. We generally believe that

the DAC system, if it's given good guidelines, can define "catastrophic" if it's given maybe some criteria other than the specific list of injuries, but of course that might lead to a broadening, so we have to be aware of that.

The Chair: Thank you very much. We appreciate your presenting to the committee today, for your help.

MOTORCYCLISTS' COALITION ON INSURANCE

The Chair: The Motorcyclists' Coalition on Insurance is our next presenter, Allan Johnson and John Cooper. Welcome to the committee, gentlemen.

Mr John Cooper: Thanks for the opportunity to speak today.

Mr Allan Johnson: I'm Allan Johnson of the motorcyclists' coalition. This is Mr John Cooper. The coalition is a group, an ad hoc committee, representing three motorcycling organizations, as listed on the front cover of our submission: the Canadian Motorcycle Association, which is 20 clubs in Ontario; the Ontario Road Riders Association, which is 45 clubs; and the Canadian Vintage Motorcycle Group, on which Mr Cooper and I are long-serving members. They have over 1,000 members in Ontario alone. So we're the first sort of consumers, I think, that you've seen today, people whose connection to the insurance industry is that we have to buy it.

The earlier presentation you had from the motorcycle industry council indicated some of the problems which are outlined on page 1 of our submission. I will simply reiterate that seven years ago, motorcycle insurance was affordable but was difficult to get through adverse business practices, which had always existed. But through the permutations of the various systems, the substantial increase in premiums under the OMPP—42% in three years—the first year of Bill 164, 1994, increases ranged from 8.7% to 27%, depending on which company you looked at, and the loss costs rose 51%. As a result, a lot of riders are riding without insurance.

Now, this is a hard figure to get, but some data from 1994 from the Ministry of Transportation said that 111,326 motorcycle and moped validation stickers were issued and submissions from the insurance industry suggest only 102,532 motorcycles and mopeds had contracts of insurance issued on them. In previous years those figures generally balanced at around 111,000, 112,000, so there's quite a difference there.

A recent study of fatal motorcycle accidents, and this is the study here, found that in 1990-91, 27.6% of the motorcycles involved in fatal accidents were uninsured. In 1992, this was 31%. In 1994, it's 32%. These are derived from actual police accident reports.

So the half a dozen basic problems on page 2 are:

Probably 25% to 30% of the motorcycles on Ontario roads are uninsured because of the cost of even basic insurance.

A minimal policy can be two to three times the value of the machine. You can get a good, running motorcycle, certifiable, for \$1,000. If you're a fairly young man, even with a clean record, the Facility wants up to \$2,725. That doesn't cover collision, fire, theft; that's just to get on the road.

Illegal business conduct by brokers and companies using practices such as tied selling, blacklisting and whitelisting make it difficult to even purchase insurance. This is tightened up because companies basically are losing money with the current regime.

No Ontario-based insurance company will insure a motorcycle unless the client brings other business. One Quebec-based company will write motorcycle-only insurance, subject to a large blacklist of non-insurable makes and models. That company, by the way, has total assets of only \$35 million. Most large insurance companies that we're familiar with that write car insurance are firms with assets of a billion dollars or many hundreds of millions. So it's a small company owned by literally one person, and it may or may not be in the market in the future, and they're 30% of the motorcycle insurance market in this province.

A substantial percentage of Ontario motorcyclists who may have paid hundreds of thousands of dollars for accident benefits coverage are unable to claim significant benefits due to their collateral benefits coverage or their failure to meet various criteria.

Referral to the Facility Association, the insurance pool of last resort run by the companies, is used by many insurers to avoid insuring, to avoid quoting at regular rates. If you quote somebody a high rate, even if they may not deserve that rate, they go away. You don't have to worry about taking a motorcycle on your book of business.

Now to the Ministry of Finance's proposed plan: While the plan proposed by the Ministry of Finance goes some way towards reducing the upward price spiral of costs, it does not go far enough towards actually reducing the cost of basic motorcycle insurance. Significant reductions are needed in order to convince that large number of uninsured motorcyclists to purchase insurance. The proposed increases in fines for non-insurance will do little to convince riders to buy if the cost is still double or triple the fine and availability is as limited as it is today.

Our proposals for change are five basic points, page 3:

(1) Tort provisions should be expanded to allow suit for physical damage to the motorcycle and associated property in cases where the motorcyclist was not at fault in an accident. This would eliminate the direct compensation portion of mandatory insurance coverage in a motorcycle insurance policy. This is section 263 of the Insurance Act.

(2) Mandatory accident benefits coverage for death benefits and funeral benefits should be eliminated from required coverage in motorcycle insurance policies. This is proposed regulations 22 and 23.

(3) Motorcycle accident benefits coverage for repairing and replacing clothing and medical or dental devices damaged in an accident should be eliminated from required coverage, proposed regulation 30.

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(4) The loss transfer process for not-at-fault motorcycles in collisions between cars and motorcycles, as embodied in section 275 and regulation 664 of the Insurance Act, should be retained. Now, this retention appears to be intended in the proposed revisions to the Insurance Act and I was assured by one of Mr Sampson's

staff that this was what was intended, but it has been a very valuable clause, first proposed by the Osborne commission, and it is an essential component of motorcycle insurance.

(5) Section 438 of the Insurance Act should be enforced by the commissioner in regard to the tied selling of motorcycle insurance, clause (j), and misclassifying motorcycles and riders, clause (k).

Now the impact of the proposed changes that we're suggesting: We did a detailed costing based on this information here from the IBC via the insurance commission, and this is actual loss cost data from 1984 through 1994. Assumptions were made that motorcycle tort costs under the proposed system would fall between the tort regime of 1989 and the limited tort system in force in 1992. It was also assumed that medical payments under the proposed system will be 75% of those under Bill 164 and that wage replacement will be 80% of that experienced under Bill 164.

Loss costs expected on the basic motorcycle insurance plan proposed by us would average \$177.06 per motorcycle. Allowing a loss cost percentage of 75% of net premiums—I think in the insurance industry it is considered that if you lose 75% of your premiums in loss cost, you are laughing, you are doing all right. When it gets up over 80% and to 85%, you're in trouble unless there are very high interest rates available for you to recover some of your money through investments. So 75% loss cost would result in a net average premium of \$221.33 and a retail average premium of \$248.99. Now, to compare our proposal of an average premium, the 1996 average basic premium under the current Bill 164 is expected to be between \$450 and \$460.

The last page is a detailed comparison of the current no-fault, the Ministry of Finance proposal and our coalition modifications, noting the deletion of certain categories and the expected premium at the end.

We invite any questions. I'd just like to make perhaps two comments as we close: One, we really do need to do something about the people who are uninsured. A lot of them are younger people. They don't realize, but they know they can't afford to be on the road. We have a care, the state has a duty in loco parentis to look after its citizens to some extent.

The second point I would make is that three years and 22 days ago, Mr Cooper and I appeared before this same committee—and I think everybody except Mr Carrozza, the clerk, are new faces—and I was asked by Mr Klopp, who was then a member of the House, did I not think that Bill 164, as proposed, was a better system than what we've had before. I responded that I had no clear answer except that if it is too high a price impact, the same thing might happen as happened in 1990. People were unhappy with the eventual system and voted for somebody else.

If they vote for somebody else again, we're going to be back revising the system again and there we go. It could well happen. We're just trying to get a system that we think motorcyclists can live with and can be economically affordable and will pick up the pieces better than it has in the past.

Mr Wettlaufer: Thank you, gentlemen, for your proposal. As a former insurance broker and an insurance

company executive, I find your proposal interesting. I can vouch for what you say in so far as the tied selling going on in the industry. I agree with what you say there.

I have a concern with your proposal in so far as tort provisions being "expanded to allow suit for physical damage to the motorcycle and associated property." That cost would have to be passed on someplace else, and it would be passed on to the insurers of the automobiles as opposed to the motorcycles.

Do you feel there would be such benefit to the motorcycle owner that he or she could find insurance at an affordable price that it would be worth a split insurance system, allowing tort for motorcycles and allowing only no-fault with limited tort access for automobiles?

Mr Johnson: Let's put it this way. I think the current system requires motorcyclists, as it requires car owners, to buy physical damage insurance on their cars.

Mr Wettlaufer: Allows.

Mr Johnson: It requires a direct compensation.

Mr Wettlaufer: Under the direct compensation.

Mr Johnson: It's a mandatory component. And you aren't required to have house insurance. You aren't required to have insurance on something. You're required to have third-party insurance on a motor vehicle.

Why should you have to buy physical damage coverage to insure your own vehicle? Eighty per cent of motorcyclists do not buy fire, theft or collision insurance on motorcycles. For one reason, over 50% of the motorcycles on the road in this province are over 10 model years old. They're not worth that much, but we have to buy that physical damage coverage.

Mr Wettlaufer: For not-at-fault accidents. For at-fault accidents you don't have to.

Mr Johnson: Right, but it's still \$2.8 million on there, and we're trying to reduce the loss cost to the point where motorcycle insurance is affordable, because the product is not affordable. If you've got some other way to make it affordable, I'd like to hear it, but I don't see it coming out of the IBC proposal this morning. All they say is it's got to go up in price, and with all due respect, asking the insurance industry to propose a cheaper form of insurance and to do the costing of it is a little bit like asking the fox to look after the hen-house.

Mr Crozier: Thank you, sir. A couple of the statistics you have given us are both interesting and in some ways shocking. You've noted approximately how many motorcycles and mopeds there are in the province and what number of those are insured. If my mathematics are correct, about 8% of the motorcycles and mopeds in the province are not insured. I'm not sure whether that's a—

Mr Johnson: That's the difference between those that have validation stickers on them and those that apparently don't have insurance. But we know there are 336,000 plated motorcycles somewhere in the province.

Mr Crozier: Oh. Okay.

Mr Johnson: And only the 111,000-odd get a sticker put on them. So there are many thousands of motorcycles out there that never get the sticker on.

Mr Crozier: So you're telling us only a third of them are insured then?

Mr Johnson: We think a large number of those are probably not functional or may have been scrapped, but

there are many, many thousands of plates on the Ministry of Transportation's registry that could well be on motorcycles riding around, and all you need is a magic marker or a piece of coloured tape to get a validation sticker that looks okay from 20 yards.

Mr Crozier: Of course, we also could assume then that some of them are written off. They're in a junk yard somewhere, if that's the case.

Mr Johnson: Oh, yes.

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Mr Crozier: That's something I think we are going to have to address in the not-too-distant future, some sort of registry for vehicles that are no longer on the road but for which validation or at least vehicle identification numbers and so forth may still be hanging around.

In any event, that changes my view of the number that were in accidents who didn't have any insurance, which is upwards of 32%. I was trying to relate it to those not insured having accidents. It seems to me a high proportion of those who do not have insurance are having the accidents and that tells us something too as to why they weren't insured in the first place; maybe it doesn't.

Mr Johnson: This is very difficult because we haven't begun to discuss the motorcycles and all-terrain cycles under the Off-Road Vehicles Act, which are supposed to be plated and insured, and there may be 40,000 or 50,000 of those. I think very few insurance policies are ever written on those.

Ms Lankin: In addition to the practice of tied selling that you spoke of, you talked about extensive blacklists of unwritable makes and models of motorcycles. I wonder if you could expand and explain that to me; also, the use of the Facility Association bad driver rates as a screening tool. Could you explain to me how those things work.

Mr Johnson: It's very easy, and it happens very widely in automobiles too. A fellow walks into a broker's. The broker doesn't know him. Particularly if he wants a motorcycle, looks like a young kid and has a black T-shirt on, the broker quotes him the Facility rate and he goes away. It's really high. He doesn't have to try and convince his insurance company, and since virtually every insurance company will only write a motorcycle if you have other business—at 55 years old, without an accident in 38 years of motorcycle riding, I could take you around to any of the big companies and walk in and say, "I'd like motorcycle insurance," and I'd be quoted a Facility rate: Co-operators, State Farm, Zurich, Pilot—you name it.

I could get insurance at Jevco because I don't have a sporty model motorcycle, or what they consider a sporty model. The blacklist consists of machines that they happen to think might be a bad risk, and it's a fact that Jevco has the widest blacklist, which is also used, I think rather illegally, by other companies. They put motorcycles on that list that were not even available for sale in this country, so there was no experience that they were risky motorcycles or that somehow there was a basis for adversely rating them.

Ms Lankin: Why have they done that then?

Mr Johnson: It's cream skimming; you only want the good business. Mr Rogacki was here this morning; he is a cream skimmer. Progressive Casualty just takes the old

men with nice touring bikes who are not a big risk; old people are not a big risk in cars or bikes. He wouldn't insure a bike under 400 cc, a small bike; he wouldn't insure anybody under 25; he wouldn't insure motorcycles for basic coverage, just full coverage—bigger premiums. When times got tough, he ran out of the country as far as motorcycles were concerned and left 1,000 people looking for motorcycle insurance.

Ms Lankin: The list of changes you've proposed with respect to mandatory accident benefits: Is that simply to find a way to bring the cost down? You're saying those things are not essential and people can buy them extra if they want them.

Mr Johnson: If you can't afford a \$500 topcoat for the winter, you can only afford a \$40 parka, you've got to take something out. We've got to take these components that we feel are not needed. With only 60% of the motorcyclists killed is there a death benefit paid. If they're single, they have no spouse.

Ms Lankin: So these would be optional purchase plans.

Mr Johnson: If someone wished to have that coverage, I suppose they—

Interjection.

Mr Johnson: I think if you're buying life insurance, you should buy life insurance; if you're buying motor vehicle insurance, you should buy motor vehicle insurance.

The Chair: Thank you for presenting to us today.

ONTARIO MESSAGE THERAPIST ASSOCIATION

The Chair: The next group is the Ontario Massage Therapist Association. Welcome to the committee.

Ms Elizabeth Leach: My name is Elizabeth Leach; I am the executive director for the Ontario Massage Therapist Association. With me today is John Sanderson; he's a registered massage therapist. He also works for a medical rehab DAC. We are here on behalf of 1,200 registered massage therapists in Ontario.

I would like to thank you for the opportunity to address the committee on this very complex and important issue. In general, the association is supportive of much of the draft legislation and recognizes the hard work that has gone into preparing this legislation.

The Ontario Massage Therapist Association, as the professional association of registered massage therapists in Ontario, provides support, professional development and networking opportunities for its 1,200 members, as well as a referral and information service to the public.

There are currently 23 self-governing health care professions in Ontario that are governed by the Regulated Health Professions Act, and 21 specific acts that articulate each profession's scope of practice. Massage therapists are regulated under the Regulated Health Professions Act, RHPA, and the Massage Therapy Act, 1991. The RHPA establishes regulatory colleges as independent bodies responsible for regulating the profession, and for developing and maintaining standards of qualification and standards of practice. Massage therapists are regulated by the College of Massage Therapists of Ontario.

The Massage Therapy Act, 1991, defines the scope of practice for massage therapists as follows:

"The practice of massage therapy is the assessment of soft tissue and joints of the body and the treatment and prevention of physical dysfunction and pain of the soft tissues and joints by manipulation to develop, maintain, rehabilitate or augment physical function, or relieve pain."

Today I'd like to address one issue and one issue only—I'm going to keep it really short—and that is the need to include "massage therapist" in the definition of "health practitioner." You heard earlier this afternoon the same request by occupational therapists.

The reason for this is very simple. Under the current legislation, massage therapists have been assessing and treating auto accident victims. Under regulations for the Massage Therapy Act, the client health record must include a copy of any treatment plan. If this draft legislation remains as is, a person who sustains an injury that requires massage therapy must submit a treatment plan prepared by a health practitioner to the insurer for approval.

But the insured person would only be able to ask a physician, chiropractor, dentist, optometrist, psychologist or physiotherapist for a treatment plan for massage therapy. This doesn't make sense. How can a proper assessment and treatment plan be prepared for the injured person if a massage therapist, who is not defined as a health practitioner under this draft legislation, is not permitted to submit the treatment plan?

If it were the case that very few accident victims required massage therapy, this would not be an issue. However, soft tissue injuries are very common consequences of different types of accidents, including automobile accidents. The 1994 annual report of the Institute for Work and Health states: "Soft tissue injuries are the largest category of compensable injuries in Canada. Soft tissue sprains and strains involve muscles, tendons and ligaments in the extremities or the back and represent more than half of all compensation claims which require time off work." I've included this quote in the appendix.

If you refer to appendix II, and these are statistics that I've been able to get from one insurance company with respect to OMPP, you'll see that for this one insurance company, soft tissue injuries accounted for 51% of total costs and 58% of total injuries under OMPP.

Injured persons must have access to appropriate, reasonable, timely and cost-effective rehabilitation by the regulated health care professionals who can help them best. Injured persons must have access to registered massage therapists who, by virtue of their scope of practice, are the experts in providing assessment and treatment of the soft tissues and joints of the body.

I urge this committee to include registered massage therapists in the definition of health practitioner in the auto insurance legislation and allow registered massage therapists to continue to assess and treat injured persons who sustain an injury of the soft tissues or joints of the body.

I appreciate the opportunity to share these comments with you. If you have any questions, we're happy to answer them right now.

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Mr Crozier: I thank you for your presentation. I think what you're asking it's fairly straightforward, and for me to delay you by any further explanation of it would be unnecessary. I just hope that the committee and the government takes your requests into consideration.

Ms Lankin: Perhaps I can take Mr Crozier's time then. In terms of the one issue you put forward, I think it's fairly straightforward. It's understandable. I don't know the reason the government has excluded some of the regulated health professions and included others. I guess we will hear from them at an appropriate point in time on that.

I'd actually like to ask you some questions about your experience with the DACs. We have someone for the first time here who could perhaps talk about the process that you have seen and what some of the problems are. Let me preface this by saying that in trying to understand what the government's doing here, they're looking to try to change the benefit package, the basic product provided by the insurance industry, to bring down the cost of that so that rates won't continue to go up.

If you look at and examine what is driving the rates up, and the experience in the last couple of years under Bill 164, the insurance industry tells us that the majority of that is being driven by medical rehab costs. They also say that the majority of it is a volume of claims at the lower end, not at the \$75,000 cap. They say they don't think the \$75,000 cap is really going to change anything in terms of the cost drivers there. It's more getting in, getting the appropriate treatment plans—we've heard from other presenters—ending duplication. There's a suggestion of a lot of fraud there. I think the fraud might also exist under a tort system, not just under a no-fault system.

I'm just interested in your experience at the DACs and your perceptions of the reasons why med rehab costs are escalating so quickly, and have we got the right answers or is there more we have to do to fix that problem.

Mr John Sanderson: There are a number of different reasons why we see people at the DACs. At the DAC I work at, our main premise we go in with is, "People aren't responding and let's just find out why," not looking too closely at some of the issues which surface. Those are issues such as overtreatment or perhaps inappropriate treating. We find people we think are ready for discharge and we state that clearly up front.

Ms Lankin: I guess I'm asking you, why is that happening in the system? Even with this proposal, for example, for your profession to be added to the group that can write a treatment plan, where is the decision-making going to take place and who's going to have the control over what professions the individual gets referred to and what is an appropriate standard of treatment? The treatment protocols, particularly for soft-tissue injury—I think it's going to be a long time myself before there are actual treatment protocols that are going to meet a whole lot of the situations we're going to face out there.

I worry about the whole thing we faced in OHIP under the OHIP system, the fee for service, who's the driver in the system, who's the gatekeeper. I see some of that replicating itself in the insurance-paid health care system.

I'm wondering if you have any comments on what you see there and how in fact we can control that. I don't think the bill does it, but I do agree with the government that that's the area that needs to be controlled.

Mr Sanderson: I see the draft legislation is trying to control that simply by excluding, at least in our case, one group of billing practitioners. From my perspective, we're limiting people in the treatment they can get, or at least limiting in that there are only a few number of gatekeepers. The way I perceive it happening, if someone has an accident, if one of the gatekeepers doesn't happen to think about massage therapy, it's not going to be included in the treatment plan. Then perhaps if and when it becomes DACed, then that's when the DAC might say, "Did you consider it?" and, "Why not?" But we can't ask those questions like, "Why not?" We can just recommend it at that point.

Ms Leach: I think part of the thing that we'll find is that if there are treatment plans, the control will be there. If you have a multidisciplinary health care team, there is self-control there. Some of it is education, suggestions from other practitioners, knowing what other practitioners are doing or second opinions. We support the idea of the treatment plan; that's very important. I think when the DAC or the insurer receives a treatment plan, if they provide these treatment plans to the different health care practitioners who are involved in the treatment, some of the duplication will be removed.

The other thing too is that you have a list of 23 health care professionals who are experts in their particular area. What you want is the patient, the person who was injured to have the appropriate care. What happens if you're hurt and you don't have access to the person who could give you that appropriate care? What do you do? You keep going back to the person who's giving you the inappropriate care. If that person doesn't recognize that what they're doing is inappropriate and is trying to do the best they can, you can't blame that person. There's no other place to send them, so they keep going back and back and back, looking for the answer.

Mr Ted Arnott (Wellington): Thank you, Ms Leach and Mr Sanderson, for your presentation today; it's been most helpful. As Ms Lankin said, your suggestion is very straightforward and we appreciate your precision. I know of no reason why massage therapists would not be included in this legislation and I'm quite certain that the government and members of this committee will give your suggestion all due consideration.

I was just wondering if you've been tracking the demand for the services that your members provide. Is it increasing? By what level is it increasing? Could you give members of the committee that kind of information?

Ms Leach: I don't think we've been tracking it specifically. The insurance companies and the employers who provide extended health care plans are telling us that they are seeing more and more use of massage therapy and they're asking us why we think that could be true. I can speculate as to what the reasons could be. I think part of it has to do with general recognition by the public of what's available and people recognizing that there's a regulated health care professional who can provide them with appropriate care. I can give you lots of other

reasons, but I really would just be speculating. Do you want to add anything?

Mr Sanderson: I think as our profession matures, more and more of the other health professionals recognize the work that we can do and see results. I feel personally that the fact of being invited to be on a DAC team was a step in the right direction, and I'm given equal say when I sit around the boardroom table with the physician, the chiropractor and the physiotherapist. They all listen to my expertise—it's different than theirs—and we meet on a level playing field.

Ms Leach: If I could just add, we've surveyed our members and referrals to them come from physicians, psychologists and chiropractors.

Mr Ford: I'm sitting here listening to this. I've had several people go to chiropractors and massage therapists and masseuses—body rubs. Could you explain to me how do you define between those three categories? Because you're talking about manipulating bones, rubbing and muscle relaxation, and these are three different areas. Would you explain it to me? Because I'm not too familiar with massage therapists.

Mr Sanderson: You mentioned chiropractic first of all, and their main scope of practice is to work with the joints of the body. They're well trained with soft tissues as well, but they usually defer to either physio or massage to work with that. The other two are massage therapists and, as you said, body rubbers?

Mr Ford: Yes, masseuses.

Mr Sanderson: Well "masseuse" and "masseur" used to be old accepted terms for what are now called "registered massage therapists." We, by virtue of our education and the fact that we're under one of the regulated health professions acts, have our own act, are separate from body rubbers, who are just simply people who offer a public service, with no training necessarily.

Mr Ford: Where do you get your referrals? Which medical profession usually refers to you?

Mr Sanderson: Personally, more physicians. That's my personal practice.

Mr Ford: Well, I wouldn't see a chiropractor referring to you. Do they?

Mr Sanderson: Very much.

Mr Ford: I'm not sure; I just don't know.

Mr Sanderson: I'm personally more doctors, but I have a few chiropractors who refer to me.

Ms Leach: The top three are physicians, chiropractors and psychologists who refer to registered massage therapists in Ontario.

Mr Ford: That's good. Thank you very much.

The Chair: Thank you for presenting in front of the committee today. We certainly appreciate it.

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CANADIAN BRAIN INJURY COALITION

The Chair: The next presenter is the Canadian Brain Injury Coalition, Bernard Gluckstein. Welcome.

Mr Bernard Gluckstein: Thank you for having us. First of all, I've circulated our brief, which was actually the brief that we gave to Mr Sampson when we met with him. I want to compliment Mr Sampson, first of all, on

his extensive work. I've had to live through all the various committees dealing with all the changes to the motor vehicle repair system and this is probably one of the most thorough pieces of work that you've been able to assemble in the shortest period of time. On behalf of the coalition, we would like to congratulate you on the work that you've done.

First of all, in our brief we tell you a little bit about what the Canadian Brain Injury Coalition is all about. I'm their legal counsel. It's marked on the list that I'm the director. I am not the director. I represent them here today as their legal counsel.

We are basically the umbrella organization representing all the recognized provincial brain injury organizations throughout Canada. Theoretically, I would think that we represent every brain-injured victim—or survivor, as we call them—and their respective families. Brain injury does not only affect the individual who's been injured but also their family, their extended family and their relatives.

Just at the outset, I wasn't here for their presentation, but I was able to get a copy of the brief of the Insurance Bureau of Canada. There's one particular item in their brief that, on behalf of the coalition, I take extreme issue with. On page 2 of their brief, under appendix D, when they deal with the definition of catastrophic impairment, they refer to head injuries. We refer to them now as brain injuries, because head injuries aren't necessarily a lesion to the brain. They say, "Head injuries which are not serious can get through to the higher levels." Any injury to the brain, in our opinion, is serious. It may not be categorized as serious by definition, but the effects of that injury can have catastrophic results.

The time that I've been allotted has limited me to not comment on the various definitions. These will be addressed, as I understand, by the Ontario Brain Injury Association as to its views on the definition using the Glasgow coma scale. I see you've increased it from eight to nine; you're getting there but not quite there yet. Again, we endorse their views on that and I think you can direct any questions to the professionals who will be addressing that. I understand that a neuropsychologist by the name of Dr Gates will be making that presentation and you can see why that definition may not be the answer as far as we're concerned. But I'm going to leave that for now.

We're concerned, as a Canadian organization, with any changes to the Ontario motor vehicle repair system. There is no question that we are far more advanced in first-party benefits than any other jurisdiction in North America, apart from maybe Michigan. We would like to keep it that way and we realize that in order to keep it that way there have to be some compromises. So the fact that I may not address any particular issue, I hope that our constituents who may be listening to this in some form or other may not—I don't want them to think that I'm agreeing necessarily with the changes, but I would say overall it is a tremendous compromise for all factions.

I understand that for the first time in my 34 years practising law in this field exclusively, we've had the insurance industry, the lawyers, the rehab industry, the government and some other interest groups communicat-

ing. That is a first. Whether or not we all agree on various issues, you'll hear throughout these hearings as to the various views. Far from me to comment on all of them, but I'm going to highlight just a few of the changes that we are concerned with and hopefully assist this committee in coming to some changes that may make it an even better amendment than it is.

First of all, dealing with the notice of claim, again I wasn't here when this was addressed earlier. But from the comments and the questions that were asked, it would appear that someone has brought to the committee's attention that anyone injured in a motor vehicle accident within a short period of time will understand that, in order to protect his rights, he will have to serve a notice of claim. This notice of claim and the corresponding statutory declaration will obviously be premature in any claim that will form part of the exception to the act. As a matter of fact, the courts have stayed away from the word "threshold." I see you've put it back in here, so I'm going to address it as a threshold, but it's an exception to the act.

What will happen is that the smallest little whiplash claim will then start arising, whereas, as I understand it, to keep costs down, these were literally done away with under Bill 68 and Bill 164. They will arise again, not necessarily that they will pierce the threshold, but that in order to protect any potential claim, they will have to be serving this notice of claim.

With the inherent costs involved in that, because each insurance company will have to address the issue even though they may not have before—now, I understand the rationale behind it in order, of course, to allow the insurance company to be given adequate notice for their IBNR. However, on the other hand, are we not going too far the other way by putting this unusual demand on a person? There may be other ways of addressing it, and at a later stage, if anyone wants to sit and discuss it, we can discuss it at length. But this is a tremendous hardship on the brain-injured community especially; for instance, if somebody is in a coma. What about children, anybody disoriented? One of the criteria of a moderate brain injury is the fact of denial, that he will deny he has a brain injury. He won't go to see a lawyer necessarily until almost the two-year period, if he's lucky. Subsequently, these people will be penalized not only in prejudgement interest but in costs.

If I can go very quickly, because I want to cover this in the time allotted, I want to congratulate you on the advance payment provisions. The starving of a plaintiff out of an action is now going to be done away with. However, there still is a slight opening here for the insurance companies to stonewall in the fact that they must admit liability. You'll find that on the slightest pretence they will deny liability. Our suggestion is that an amendment be made so that if in the judge's opinion they should have admitted liability, the cost consequences flow.

Mediation before commencement of action: Again, that is in our opinion not a cost-efficient way of doing things unless it is definitely a case that's going to be over the threshold. I would suggest that the mediation come in after the claim has been issued, not before the claim has been issued. You've already got a statutory declaration,

if that goes through. You've already got a notice of claim. You've got a defence. You've got an insurance examination. Why do you need a mediation before the claim is issued? At least allow the ones where you are assured that there are cost consequences in the event that it fails.

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Examinations by health practitioners: When I read this, I just saw the injured victim going from doctor to doctor, not at the instance of his lawyer but at the instance of the two insurance companies who are competing, because the third-party insurer would try to get as much paid by the first-party insurer and consequently do everything in its power to do so. The same would happen with respect to the first-party insurer. I would hate to see it fall back to the old situation where the first-party insurer denies the claim; the third-party insurer is then stuck with it. However, the poor innocent victim then has to commence proceedings against both insurance companies, with the cost consequences.

Our suggestion is that there be a coordination of the exchange of medical information and that the third-party insurer be allowed only one medical; after receiving all this medical information, if they require another one, that they bring an application, as was the case previously. It'll be chaos if they are allowed to have as many medicals as possible.

Again, you've addressed it, because you said unnecessarily repetitious medicals would not be allowed. That will lead to so much litigation as to its interpretation as to what is "unnecessarily repetitious."

With respect to anyone who has been brain injured, it's going to be very difficult for this person to get instructions. They go to various doctors, tell different stories at different times etc because they're not the best historians. This will be interpreted as malingering and, unfortunately, going from doctor to doctor, we've known historically, whether it's at the instance of his own family doctor or the lawyer or the insurance company, all tends to cause the injury to be emphasized unduly with respect to the individual, causing psychological problems. So all you're doing is compounding by allowing too many medicals. There has to be some restriction.

Again, addressing the issue of what experts should be used in any particular case, if only one medical was allowed, then the appropriate expert would be used, rather than expert-shopping. And that's what's going to happen: You're going to have expert-shopping until you finally get an opinion that's going to coincide with what you want it to be.

One thing that has been missing in all of the legislation is the fact that the providers are unable to go to mediation-arbitration on their own. Consequently, the insurance industry is able to somewhat stonewall payment of rehabilitation. The only access that they have is through the insured. The insured, especially the brain-injured, is unable to possibly give instructions in this respect. Consequently, many of them go without appropriate rehabilitation.

Somebody, I think it was the honourable Frances Lankin, was mentioning before, are we getting into a situation where we have too much rehab? With respect,

prior to Bill 68, there was no rehab. The insurance company strictly stonewalled rehab completely.

I remember a situation where I had a severely brain-injured child who probably, under the new legislation, could've utilized the maximum rehabilitation available. Unfortunately, I couldn't spend the \$25,000 that was available. There were no providers. So there has been a tremendous positive effect of this legislation. The thing is that we have to examine if all the providers out there are giving appropriate treatment. I think you've addressed that very well.

So that I have some time for questions, if there are any, I'll stop my comments as of now.

Mr Silipo: If I could pick up on that last point that you made, because you talk also in your summary about the need for early access to rehabilitation, and you certainly talked about it earlier in your comments. One of the concerns that I have with this legislation is that I wonder if the government isn't trying to resolve the wrong problem here. If the problem is that there is a real concern about some dubious rehabilitation services that are given or situations where in fact that may be given beyond what's necessary or if there are some issues around conflict of interest, I can't imagine that any of us would have any problems dealing with those and rectifying those problems. Certainly, as somebody who supported the previous legislation, I would be the first to say that if there are areas like that which need to be addressed as a result of our experience, let's do that.

But I guess what I worry about in this legislation is that, in addressing some of those issues, I think we're seeing potential loss of other benefits that now exist, that people now have. My fear is that at the end of the day we're going to see something that's going to cost the average person a lot more than it costs now. I just wanted to put that out and get your reaction to it.

Mr Gluckstein: I see this legislation as a very positive step. The thing is that we've learned over the last six years that rehabilitation is here to stay; it's a matter of how we control it now. The pendulum has swung too far to one side. The pendulum has been swinging back and forth between the insurance companies and the victims. Now rehabilitation has come into the equation. It's a positive thing, not a negative thing, if properly utilized. The thing is now, how do we control that?

I think this legislation has gone a long way to control it by utilizing the DAC system that's in place, by tightening up the DAC system. It may have been a little loose at the beginning as to who was awarded a DAC, but I think it's something that we've learned a lot from since June 22, 1990. You're to be complimented on the first aspect of that, passing Bill 68. However, I think that what was lacking at that stage was the adequate compensation that was necessary that's coming back in through this act.

Mr Silipo: Just to pursue that a little bit more—

The Chair: Is it a short pursuit?

Mr Silipo: Yes, it is, Mr Chair. We also heard earlier the concern by some presenters that in fact the caps that are being put in here, whether it's the \$75,000 or some of the other restrictions, in fact would leave out not that many people at the other end of it. So again I would ask the question, why bring those restrictions in to such an

extent if all we're leaving out are potentially few numbers of people, but people who none the less would now be left out of that additional coverage?

Mr Gluckstein: If I had a crystal ball, I think you'd probably be right in that respect, that the \$75,000 cap is sort of artificial, a psychological more than an actual cap. But it's realistic. It's a lot better than a \$25,000 cap. We are concerned about the \$75,000 cap because, again, we feel that there are some seriously and catastrophically brain-injured victims, innocent victims, who will not get adequate treatment because of that. There are also people who are at fault who will definitely be left out. How to compromise on that, I don't know.

I certainly think that in Canada—and I happen to be aware of all the jurisdictions in Canada and their treatment—brain-injured victims are the best treated here, as far as the automobile reparations system is concerned. Certainly they're better treated under Bill 68, Bill 164. However, the other side of the coin is that they are losing because they were not allowed to sue for the excess economic loss and the excess wages. That is a very positive step as far as this legislation is concerned.

1700

Mr Sampson: Thank you very much for coming and presenting to us. Certainly the work that you and other stakeholders and ministry staff put in helped us get to where we are now. So I appreciate your comments, but I want to pass that through to the people who actually did most of the burning of the midnight oil.

There were a number of items that we had on the table, so to speak, that you don't see in the form of the draft legislation and regulations, and one of them dealt with the topic of the exchange of information, the very item that you raised just a few minutes ago. I'd be interested to hear from you how you think that might work, the exchange of information between the first-party and the third-party insurance company.

Mr Gluckstein: It could be very simply done, and this is just off the top of my head, while you've asked the question. The first-party insurer supplies to the plaintiff all the medical reports, including the medical report that the insurance company will have following the service of a notice of claim, because that's something that's missing. I forgot to mention that, if you could just make a note. There's no provision in the changes for delivery of the report to the insured after that examination. That's the examination before commencement of action.

Mr Sampson: Right, okay.

Mr Gluckstein: If that could be corrected, I'm sure nobody would complain about that.

If all the reports are supplied to the plaintiff and the plaintiff is obligated to turn those over to the third-party insurer, then he has more disclosure than he ever had before. So he can't say he hasn't had notice of what the injuries are. This insured will have been picked over by that first-party insurer every which way because they literally have unlimited examinations.

Now, you've got DACs, which you didn't have before. These are independent medicals. What happens when you get into the hands of a third-party insurer is that you get the hired guns coming in. Again, it's hard to educate every judge and jury on who the hired guns are. Fortu-

nately, the arbitrators were getting on to them, but you don't necessarily have that at the trial of a jury action.

Ms Castrilli: Mr Gluckstein, we've had some conflicting evidence with regard to limitation periods, and I wonder if I could ask you about that, as a practitioner in the area. As you know, the proposed subsection 258.3(1) and following states that to bring a tort action you must bring it against the third party within 120 days, and moreover, under subsection 258.3(2), that if a third party receives a notice of claim, you have to give it to your insurer within seven days. We've had some discussion as to whether that's too long, long enough or too short. As a practitioner, does 120 days seem reasonable to you?

Mr Gluckstein: No, that's totally unreasonable, again because very seldom is a claim on a catastrophic injury or a serious injury—now, remember, we're only dealing with serious injuries; they have to pierce this threshold. I would think that an astute practitioner would wait the maximum period before issuing his claim so that he doesn't have to start bringing amendments at a later stage, each with cost consequences. The claim would not be formulated before that period of time. There are so many hidden injuries that come out within the two-year period. We're not happy with the two-year prescription period, let alone a 120-day—it's not a prescription period, it's a cost consequence and prejudice interest consequence limitation period. You're going to be penalizing a lot of people who otherwise should not be penalized.

There doesn't seem to be a remedy because the word "shall" is in there. I find that a difficult thing for me to understand, as to why that's put in, in view of all the other protections that they have. If there's an exchange of information, the third-party insurer is going to be able to get all the benefits that the first-party insurer had. People are still living in the pre-Bill 68 mentality. That doesn't exist any more. That limitation period is not necessary any more, and it's only going to lead in the long run, if they only would look into their crystal ball, in costing them more money if the insurance industry insists on it.

Ms Castrilli: What would you say is a reasonable limit, sir?

Mr Gluckstein: I would not have any limit. It would be the two-year limitation period in exactly the way the courts interpret it: If a person is not aware that he has a claim it's two years from the time that he becomes aware he has a claim.

Ms Castrilli: So the standard rule.

Mr Gluckstein: Exactly the way it is now.

The Chair: I'd like to thank the Canadian Brain Injury Coalition for presenting to us today and for the work you've done leading up to this day.

CANADIAN ASSOCIATION OF RETIRED PERSONS

The Chair: We now have the Canadian Association of Retired Persons, Mrs Morgenthaler—Mrs Morgenthau.

Mrs Lillian Morgenthau: I'm not Dr Morgenthaler.

The Chair: No, I'm sorry. Welcome back to the committee.

Mrs Morgenthau: Thank you for having me. I wonder if I could get a clean glass, gentlemen? Thank you very

much. I feel very comfortable with some of these familiar faces.

The Chair: We have 20 minutes this time. If you—

Mrs Morgenthau: What did you do, cut me down again?

The Chair: Yes.

Mrs Morgenthau: And you know that's not enough time for me. That's a phone call.

The Chair: It has been a challenge. Please proceed when you're ready.

Mrs Morgenthau: Well, first of all, I want to comment on your burning the midnight oil. I presume I'm not the last one, because there are more people behind me, and that's really great of you to be here.

My name, as many of you know, is Lillian Morgenthau and I'm the president of the Canadian Association of Retired Persons. I really would like to begin by thanking you for taking the time to hear about our organization. The Canadian Association of Retired Persons, CARP, is an association representing people over the age of 50 whether they're retired or not. We provide both social and financial benefits to almost 240,000 members. We work actively with government on issues of interest and concern to Canadians over 50. Auto insurance is one of those issues.

CARP has been concerned about the continuing increase in the cost of auto insurance in Ontario, particularly that which we have experienced in the last two years since the new auto insurance system, Bill 164, was introduced. We met with Rob Sampson last September as part of his consultation process on auto insurance, and I'm glad to see, Mr Sampson, that you took some of our advice.

We believe that auto insurance should be affordable and accessible for consumers, particularly seniors, many of whom live today on fixed income and as they get older are often increasingly dependent on their cars. It is our view that the current system of auto insurance is not affordable and that major changes must be made soon to stop the rising cost of insurance premiums. We believe the changes outlined in the government's proposals are moving in the right direction.

Affordability: CARP has previously stated that the current Bill 164 system of auto insurance provides benefits which are too generous to those who have been involved in an accident. Benefits of up to \$1,000 per week or up to 90% of net income is just too high. Furthermore, seniors are paying high premiums to subsidize these high benefits which seniors cannot benefit from because most of them are not employed. It's not fair for seniors to pay higher premiums so that employed people in auto accidents can obtain rich benefits. We believe that 85% of net income up to \$400 outlined in the draft bill is a far more reasonable level of benefits.

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CARP has also expressed concern that the level of medical and rehabilitation benefits at \$1 million for every injury is too high. Once again, seniors are paying high premiums for high benefits which could be pared back and still provide adequate coverage. We support the government's proposal of separating benefits for catastrophic and non-catastrophic injury and providing

coverage of up to \$1 million for medical and rehabilitation benefits for catastrophic injury, while limiting the amount to \$75,000 for non-catastrophic injury with an additional top-up benefit being available for consumers to purchase additional coverage.

CARP strongly believes that the rich benefits under the current system invite fraud and abuse because accident claimants know that this money is there for them. Philosophically, CARP believes that benefits should be obtained only where they are deserved. We support this government's crackdown on auto insurance fraud and abuse. The measures in the proposal that allow insurance companies to request sworn statements from claimants that make it an offence to give false information to insurers and suspend accident benefits if there is a wilful and material misrepresentation are a step in the right direction.

Access to the courts: We also believe that one of the ways to make auto insurance more affordable for seniors and consumers in general is to allow access to the courts for auto accident injuries. It is our understanding that under the current system accident victims are not allowed to go to court for economic loss. To compensate for this, the accident benefits have been increased and now we have an expensive system which seniors and others must pay for in premiums that go up every year.

While CARP supports restoring the right to sue for significant economic loss and maintaining the right to sue for serious injuries, non-economic loss, we do not want the Ontario system to become like the American system with clogged courts and ambulance-chasing lawyers. There must be a system of checks and balances so that every case does not end up in court. Otherwise, we will end up with a costly, slow legal system. This isn't beneficial to consumers, as our experience with this type of system in the 1970s and 1980s has shown.

We believe that a sensible amount of deductible for non-economic loss and the recovery limit of 85% of net income for economic loss that are contained in the proposed legislation will provide those checks and balances. However, we do not believe that the proposed threshold of \$15,000 is correct and request that it be lowered to \$10,000. The reason is that when a senior sustains even a non-life-threatening injury, such as a broken leg, this might take several months to heal and several more months of rehabilitation. We also support the expansion of the right to sue for medical rehabilitation, attendant care, housekeeping and home allowances, and are supportive of the changes in the dispute resolution process at the Ontario Insurance Commission, the introduction of evaluation and arbitration and other measures to ensure that claims are settled quickly and fairly.

The removal of the \$185-per-week benefit: It is CARP's understanding that the insurance industry had proposed that the \$185 weekly benefit to students and seniors be eliminated under the new insurance system. While we understand the cost implications of providing this benefit and believe that consumers, including seniors, should receive those benefits they are entitled to—that is, if you are employed you should receive the no-fault benefit payments based on your income—we are pleased

that the government has retained the \$185 benefit with a six-month waiting period before obtaining this benefit. We believe this benefit will be a disincentive for seniors to proceed to court and will help to eliminate frivolous suits which tie up the courts.

In conclusion, CARP supports the government's proposed changes to the current auto insurance system. We encourage the government to move quickly to eliminate the current rich benefit payments so that seniors must not endure another year of rising premiums which enable the working population to enjoy overgenerous accident benefits. We support allowing individual policyholders the option of purchasing additional benefits to suit their individual needs. CARP supports these changes only if premiums truly become lowered. In this world of technology, we can determine immediately who causes accidents and what is the cost. Accidents caused by seniors are usually fender-benders, seniors do most of their driving in the daytime and they rarely speed. It is our contention that seniors' premiums should reflect these facts. We also believe that these proposals, which make benefits more realistic, will reduce the incentive for fraud and abuse.

Ladies and gentlemen, thank you (a) for staying, (b) for listening and (c) for being polite. So what do you want to know?

The Chair: Thank you very much, Mrs Morgenthau. We'll be going at it until 6:30 tonight, so we are doing long hours.

Mrs Morgenthau: Do you get time out for dinner?

Mr Sampson: Thank you very much; good to see you again. One of the things that we are looking at responding to, perhaps as part of the final package, is how we deal with a rating variable change that would allow the insurance companies to ask the question, "Are you retired?" in the hopes that it would help them properly assess the risks associated with underwriting the insurance plan for a retired person. Is that something you'd—

Mrs Morgenthau: Rob, that's a bad idea.

Mr Sampson: Is it?

Mrs Morgenthau: Yes, and I'll tell you why. You don't mind my calling you—I did in private so I might as well here.

First of all, when you say "retired," lots of people are retired. Today, people are retiring at 52. They're being downsized, they're getting a window, they're getting out, they're retired. But with the economy the way it is today, most seniors and most retired people have to have two days, three days, work at night—they have to have extra. The word "retired" is not a good word. I would say something else: "Are you a senior?" "Do you work full-time?" I would evaluate that question. But certainly, anyone who is retired, or older, is just not driving the same as a housewife who's running car pools and a million other things, skating and everything else. They should not be paying the same penalties.

Mr Sampson: Okay.

Mr Kwinter: Thank you very much for your presentation. As always, you get right to the point.

Mrs Morgenthau: The bottom line.

Mr Kwinter: I appreciate that. One of my concerns that I have with the government's plan—and I don't think

anybody will criticize the need for change to get the system right, and I'm prepared to support anything that will get the system right. One of my concerns—and you have raised it when you say that efforts must be made to stop the rising cost of insurance premiums. Then in your conclusion you say that you support these changes only if premiums truly become lowered. I'm sure you know, if you take a look at the proposal that was put out and the evaluation by the insurance bureau, that in fact with this plan, over the next five years, insurance premiums are going to increase by at least 35%.

Mrs Morgenthau: Monte, basically speaking, if that's true, then we may as well throw it out. The idea of a new plan is so that we keep premiums within a very low level. If premiums are going to go up, then this government, which is cutting all sorts of things, may as well cut the premiums.

Ms Lankin: I'm not sure that I have anything to follow up on that, Lillian.

Mrs Morgenthau: Frances, you always have something to say, so I'm willing to listen.

Ms Lankin: I think that Monte underscored the important point that you make, that only if premiums are going to be stabilized by this could you look at supporting this kind of package, and in fact, all of the assessments say that won't happen. I think we need to go back to the drawing board and take a look at what the problem is.

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You talked about the very high benefits under Bill 164, and yet the experience out there is that people who were receiving benefits weren't receiving them to the maximums that were in that. The problem in fact is the volume of growth in medical rehab. You know yourself, in terms of long-term care, dealing with the seniors population, we've learned a lot more about the value of rehab, of attendant care, of support in the home. I think that there are some issues about gatekeepers, who's making the decisions around the treatment plans, and I think there are some issues to recognize legitimate growth as we understand more about rehab and how important that is in saving costs to other places in the system, to the taxpayer. But yes, it is getting picked up in the insurance system. So I'm just not sure we've got the right prescription here for the problem.

Mrs Morgenthau: It may not be the right prescription, but when it's rehab, you don't go running to rehab unless you need it. When you go to rehab, first you have to get there, then you have to wait for your girl; I mean, it's a real hassle. So no one in their right mind would go to rehab. If you need it, it should be paid for. We're not discussing the payment of a legitimate claim for rehab or long-term care or home care. We're not discussing that; what we're discussing is that that should be taken care of but that the premiums—you're not going to have that sort of thing happening all the time. That's why you pay these premiums, so that when it happens, God forbid, you are going to be taken care of.

Ms Lankin: That's the point: You want to be taken care of.

Mrs Morgenthau: I'm sure that the government feels exactly that way. Some of them are not 20 years old.

The Chair: We won't direct that comment to anyone in specific. Thank you very much, Lillian, and I appreciate CARP's presentation today.

Mrs Morgenthau: You're very welcome and thank you again. I hope you do get dinner; McDonald's is around the corner.

The Chair: There's no question about that one.

CO-OP AUTO GLASS ASSOCIATION

The Chair: We'd like to move now to the Co-Op Auto Glass Association, Mr Pinto. Welcome.

Mr Nick Pinto: Mr Chairman, honourable members, good evening. My name is Nick Pinto and with me I have Mr Fred Colucci and Mr Roy Gomes, who is the president of our association. They're here to assist me with any questions that you may have at the end of our presentation.

We're here not only on behalf of the Co-Op Auto Glass Association, but we will be speaking for many of the independent auto glass companies operating throughout Ontario. Recently, we sent out a survey to nearly 600 independent shops and, with almost half of them returned, we can safely say that we are speaking for most of the industry.

We come before you because we feel that this our best, if not our only, chance to bring to the attention of the provincial government of Ontario and to the attention of the motorists of this province what we deem to be unfair and discriminatory practices by most insurance companies.

We, as representatives of our industry, are glad to see that a section of this bill before us, section 447, deals with fraudulent claims, and that is of concern to us more than it may be to the insurance industry. Fraud sheds a negative light on all of us, but not only that, it has made all independents victims of a knee-jerk reaction by some insurance companies.

We feel that this committee should consider adding to this bill a new section or subsection to further protect the insurance companies against fraudulent claims, but it also must prevent them from discriminating against the businesses operating in this province. We feel that this government, with the support of both the opposition parties, must make it illegal for insurance companies to direct business to preferred shops. This is an unfair practice that is putting many of us on the verge of bankruptcy and has already been the cause of many layoffs.

It should also be illegal for insurance companies to participate in what, in essence, is a predatory pricing policy, a policy designed to eliminate the independent component in our industry to the benefit of a few groups, which by the way are based outside Ontario and, in a few cases, are controlled by foreign interests.

If this bill is truly intended to protect both the insurance companies as well as the consumers, provisions must be made to ensure that it does happen. Insurance companies must be regulated in how they set deductibles, and a clear and uniform policy must be implemented to regulate when and how those deductibles are raised. Also, deductibles must be maintained at an affordable level if we do not want to see an increase of unsafe vehicles on

our roads. Deductibles must be made payable to the insurance companies directly, and waiving of deductibles should be made illegal, along with any other incentives, to ensure that only actual claims are processed.

The reason we insist that deductibles be maintained at a reasonable level is that if there is an uncontrolled increase, many people will not be able to afford to replace what of late has become a very important component of their vehicle's structure. In fact, both the windshield and the back glass on most vehicles are consequential to the vehicle's structural integrity. To better explain this point, we have submitted for the benefit of the honourable members a video cassette of an episode of Market Place which was aired last October on CBC.

We're not sure if this is the right forum, but what we intend to propose would certainly give both the insurance companies as well as the consumers a great deal of peace of mind. In the not-so-distant future, we intend to see our shops and our technicians certified by the provincial government in order to eliminate what we deem to be unqualified and unscrupulous installers. At present, we are working with the Ontario Training and Adjustment Board to set up a training program, but such a program, to be worth the paper it's printed on, must be recognized by the proper provincial authorities. Then, and only then, insurance companies may recommend that certified shops be used.

In the meantime, if insurance companies want to proceed with inspections before or after the installations take place, we have no problem, on the condition that such inspections are carried on by a third party and not be limited only to independent shops, which is what's happening these days. If the insurance companies truly want to save money, they could operate drive-in centres where the policyholder would receive an inspection sheet, pay the deductible and then go on to wherever he or she may choose. However, these centres must be operated by the insurance companies and they may not suggest or recommend any particular shop or chain.

The insurance companies, if they intend to remain in the automotive insurance business, must get their priorities straight. Their concern must be first and foremost that the work is done according to specifications.

On the pricing issue, if I may touch on that briefly, our industry throughout North America relies on National Auto Glass Specifications. We have supplied the members with a copy of one of the pages of these calculators. Yearly, they print a complete list of all domestic and foreign auto glass parts. With those lists, we also get the prices for the parts, the accessories, the materials and the time needed for the proper installation. That, and only that, should be used in determining the costs.

Insurance companies, with the support of the chains, have nearly put us out of business but certainly have not passed on to the consumers the savings they obtained when windshields went from a 20% discount off the list price to 40% or more. Instead, we have seen double-digit increases in premiums, higher deductibles and more motorists driving around with Scotch tape—and this is for real; we're not kidding you—holding together their windshields.

Mr Chairman, honourable members, we appeal to you, our elected officials, to your sense of justice and to your sense of fairness, to please put a stop to these discriminating and unfair practices. We ask that you send out a message that Ontario not only is open for business but is also a place for fair business to take place.

I hope I have respected the 10-minute time frame that we were allowed, and if you wish, we're ready to answer any questions.

1730

Mr Crozier: Thank you for your presentation. Just a quick question and then I want to lead on to something else.

Item number 2 on the first page that you presented us with: "Prohibit auto glass repair companies from the practice of waiving deductibles." It was my impression the only time deductibles were waived was if it was a repair to a windshield as opposed to replacement and that was waived by the insurance company. Does it go further than that?

Mr Pinto: No, it goes further than that, sir. Unfortunately, it has become a practice, not only in the auto glass industry but basically in the entire automotive industry, to find ways of bringing business in because of the fact that insurance companies are directing traffic in certain directions. So the only way that a lot of these shops have had to attract that business back has been to take an additional loss and waive part of the deductible or the entire amount, depending on what the amount is, just to bring the customers back in.

Mr Crozier: We're certainly concerned in this instance with small business and your ability to have at least a fair marketplace, although we have to weigh that I suppose with the insurance companies' attempt to at least control costs to some extent. You're suggesting here that if you have to go to an insurance company's appraiser or inspector, and that if one of their preferred repairers or replacers is one of these companies that doesn't provide quality service but just a low-ball price, then your concern is that when they go to one of their own choice, the bill has to be no higher or you pay the difference so that they're not getting the quality that they're paying for.

Mr Pinto: We're not here to smear anybody. We're not here to suggest that the chains do lousy work and that we're better than anybody else. We're simply here to ask that we be given a fair chance to have a piece of the market. We don't want to be discriminated. Right now, what's happening, ladies and gentlemen, is that the insurance companies first send letters to us telling us that if we are to do any repair work for them, we have to get in the customer's vehicle, drive over to one of their preferred shops and have them give us a glass breakage form. Basically, they're telling us we're crooks. If we tell our customers that, the customers are going to assume that we're crooks. We want to put a stop to this. Some of us have been around much longer than the chains have been around, we've never had any problems ourselves with the insurance companies, but because there has been a problem somewhere along the line, now we're being made the scapegoat.

I mean, if you were to come to my place and you happened to be insured with Royal, what sense does it make that I have to get in your car, drive over to Crystal or Standard Auto Glass and get a piece of paper just so that I can get paid? If you're in my shop and I call the claims department and you're right there and you confirm with them that you do have a damaged windshield, why should we go through that process? They're basically saying that you're a crook just as much as I am.

Mr Crozier: It would only make sense that I don't want to put in a claim when it's not necessary, because it's going to affect my insurance rate.

Mr Pinto: Correct.

Mr Silipo: What you're suggesting to deal with that, just to follow up on that, is in effect that what would have to be done is, as you state in your first point, to prohibit insurance companies from having the preferred shops so that basically anybody could go to any reputable shop that they would want to and have that claim then determined on the basis of your saying this is what needs to be done.

Mr Pinto: I just want to point out one thing: We as an association are also moving in a different direction. We understand where the insurance companies are coming from. We're not saying that they don't have a point altogether and that they're falling off a tree. But we are moving in the direction where we're trying to have all our members bonded. We have a code of ethics which I think we included in the package that was submitted. We're trying to prove to the insurance companies that we are willing to work with them, but when we approach insurance companies, and this time I'll have to mention again Royal Insurance, they tell us that they have a list of suppliers, that's it, that's all, too bad and so on. I don't think we can survive. If this starts to spread out, pretty soon we're all going to be out of business. This is what we would like to see in this bill: Give us a chance to do our job.

Mr Silipo: I think one of your colleagues wanted to add something.

Mr Roy Gomes: I would like to address the question you've asked, Mr Silipo. If we look at the so-called preferred shops from every insurance company's point of view, there are four of them that show up in every single case. None of them have their headquarters here in Ontario. We independents are not included in that list. We just saw over the weekend what happened to the funeral homes when the competition was not there. If the competition's not there, the prices go through the roof.

This is a predatory business that's going on right now and I think the owner of the policy is not really the insurance company but the insured and the insured should have the right to choose where he or she takes a vehicle for a repair.

Mrs Marland: I'm really pleased that you're here today and that you are stating this case because on behalf of three small guys in my riding, for the last six years I've been trying to get to the bottom of this. I wasn't aware of it until the first shop told me about it, and I said, "Well, there's no problem in resolving that." Then

I found that there's some relationship with the federal government in here too, isn't there?

Mr Pinto: They tell us that there is some sort of tie with the federal government, but it seems that every time we turn around, like when we approach the feds, we're told it's a provincial matter; when we approach the provincial government, we're told it's the federal government. That's why we said that we felt this was probably the best chance for us to express our concerns, and hopefully this committee will be able to help us in some way in somehow straightening out the situation.

Mrs Marland: I think it's great that you're here because it's absolutely nuts that you get pushed back and forth between the two levels of government.

From somebody who pays an insurance premium, I also should have the choice of supporting my local businesses, and that applies to all of us all across the province. We would want to have that choice. In a small community it may be that the local business is one of the large chains, whatever, but the fact is that those four large chains actually end up with almost a monopoly because they agree on the price, they tell the insurance companies that this is the price and the little guy can't compete, but it's not reflected in our insurance rates. It's been a big little bugaboo that I've been trying to cope with for a while.

I know our government is very sympathetic to small business in this province and I'm sure that if there's something we can now do to help ensure equity of opportunity for anyone in business and equity of choice, Mr Parliamentary Assistant, for the person who purchases the coverage as to where that work is done, we certainly will hope to get it resolved for you.

Mr Gomes: I'd like to thank you for your comments because that's very promising to us, seeing that you are on that side of the table for a change.

Ms Lankin: Yes, Margaret, you've got the opportunity and the power.

Mr Gomes: Thanks. Good. I would just like to add that these price lists are also compiled by these four companies or by three companies together with the manufacturers of course and that we haven't got any say in the price list of which you have a sample on the front page of the NAGS, what's called the NAGS calculator. Not only that, we are told how much we are going to be paid for the job. So the prices is established by the marketplace, established by the price list, established by the insurance companies. Even so, we are discriminated against as an independent business in Ontario to the chains that are operating from outside this province. I think that should be brought home to all of us.

Mrs Marland: What you're saying is that if you're given the opportunity, you're willing to meet the same price.

Mr Gomes: We're doing it right now.

Mrs Marland: The price isn't the problem. You want the equal access opportunity.

Mr Gomes: Yes.

The Chair: I'd like to thank the Co-Op Auto Glass Association for presenting to us today.

1740

NANCY COLDHAM

The Chair: Our next presenter is Nancy Coldham, if you'd like to come forward, Ms Coldham. If it's more convenient for you to stand, you may do so.

Ms Nancy Coldham: Actually I'll have to stand and sit. My tolerance isn't good on either.

The Chair: I have had a back operation myself, so I understand your dilemma.

Ms Coldham: I know time is of the essence. As you stated, my name is Nancy Coldham. I'm here today because I thought it would be useful to this committee to hear the victim's perspective on what really happens after a motor vehicle accident. I would also like to use this opportunity to make some recommendations as to how this legislation could be improved based on my experience as an MVA victim.

I'm a small business owner and I'm self-employed. I'm a founding partner in a Toronto-based consulting firm that this year celebrates its 15th year in business. It was June 21, 1995, the longest day of the year. It became the longest day of my life. At 1:55 pm, as a passenger in a car that was proceeding through a four-stop intersection, I was rammed by a Jimmy 4x4 that had failed to stop at that intersection. The impact of that hit still reverberates throughout my body today.

Mine were soft-tissue injuries. What a relief, I thought. The rescue workers kept telling me I was a spinal and I assured them I couldn't be because I had to walk because I love to dance. We all joked with each other because we were all scared. I've learned I would have been far better off if I had just broken something.

I also learned that as frightening as a motor vehicle accident can be, the real ordeal was only to begin because I would have to organize contact with and insurance coverage for treatment and disability through three insurance companies.

I didn't know that despite the fact I wasn't driving at the time, and my car was not involved in the accident, it was my automobile insurance company, and not the company of the person who hit us or the company of the driver of whom I was a passenger, that would have to foot the bill. It took a lot of time, almost two months and a lot of fruitless dealings with filing reports to other insurance companies before we figured this out.

I had to deal, as I said, with three separate insurance companies and insurance plans: my automobile insurance company, my company group benefits insurer and my disability insurer. Each of the three insurance companies had different standards, different fee schedules for treatment coverage, different reporting requirements, and one insurance company does not rely on the assessments done by the others.

I got jostled back and forth between companies as they claimed it would be the other insurer who was responsible for coverage of this or that. The onus, you see, is on the MVA victim to sort things out and to get what is due under the MVA coverage, the coverage you have paid for, the coverage you have contracted for in good faith.

Yes, welcome indeed to the MVA system. With one accident you go from being a valued insurance company

client to a potential criminal. You are their enemy. You are a potential fraudulent claim. That charming insurance agent is replaced by a claims investigator who is openly aggressive and hostile. He badgers you during an almost three-hour meeting. On and on it goes. Lengthy interviews and he expects you to sign the results of that conversation.

"Do I need a lawyer, someone to review this statement?" I ask. "No, no," he tells me, "it's not a legal document, just a summary of our conversation and the accident as you recall it." By this time, I'm in agony because my sitting tolerance is about five minutes at the time, now expanded to about 20. "You can make changes or corrections at any time and we'll send it to you later." Unfortunately, later on this report becomes the Bible.

I began physiotherapy sessions within days of the accident, thank God, at the suggestion of my doctor. The insurance company did not cover those expenses until almost five months later. You can't ask a clinic owner to survive on goodwill and the hope for payment. I covered the first few months out of my own pocket with the verbal commitment by the insurance company to the clinic owner that services would be covered based on their own fee schedule.

The MVA system I experienced is full of waste, full of duplication and full of unnecessary costs. There's multi-payor confusion, different forms, different requirements, different fee schedules, different physical assessments. In seven months, I had been seen by family physicians five or six times, I'd had three independent assessments, reports and more reports. The physiotherapy team also submits monthly reports, all checking my status and my progress—thank God the progress—in great detail.

The insurance companies say soft-tissue injuries should be healed in three to six months. Rehabilitation professionals say soft-tissue injuries of the extreme nature I sustained take 12 to 18 months. The truth is, and I've been told by doctors assessing me, that the medical profession does not really know or understand soft-tissue injury.

The doctors rely on CAT scans, MRIs, X-rays and other diagnostic tools of minimal use in assessing soft-tissue injury. In fact, the doctors kept turning to the rehab team for assessment and guidance on my injuries. But not the insurance companies. They rely only on doctors. That in itself adds significantly to the cost of the MVA program.

The doctors have offered me drugs, painkillers, muscle relaxers, anti-inflammatories, but my rehab team, led by a physiotherapist who specializes in sports and orthopaedic medicine and injuries, includes a massage therapist and an acupuncturist. That team has been the only source of effective treatment. It's a drug-free program, except for headache remedies I have to succumb to from time to time, and I am an active participant in my wellness. My progress has been real and measurable, but the insurance company wants to know, "Is it fast enough?" The real question isn't speed, it's efficiency.

It's my understanding that most injuries of the tier I level, up to \$75,000, are soft-tissue injuries, yet the MVA system is totally unprepared and totally unable to effectively deal with soft-tissue injury.

So ignorance breeds fear and mistrust. Money and time are wasted on medical assessments, none of which provide the tools of assessment diagnosis required for my type of injury. In the 1990s, why not turn soft-tissue injury assessment and treatment over to the other primary care providers, health care professionals such as physiotherapists who are trained, experienced and understand the nature, source and best treatment course for soft-tissue damage? I believe the cost savings would be immediate.

But is cost the rationale for yet another change in MVA legislation? The insurance company lobby efforts are significant. Insurance executives are quoted regularly in the newspapers saying that MVA fraud is now parallel to welfare fraud. God help us all. If that's true, it is shocking. It is shocking to think that this multibillion-dollar industry is so inept that it cannot better administer a process it almost totally controls.

Ask any credit manager. Good credit risk assessment begins before you sign up that customer. Insurance companies often sign up automobile insurance customers using a 24-hour phone operator system or through a network of independent agents. They often never see or even meet their customer. The transaction is based solely on the payor's ability to pay premiums in keeping with their driving record. It isn't until the insurer becomes a payor that character becomes an issue.

Having been through the system and having been subjected to these countless assessments, report-filing and form-filing, I don't know how victims become fraudulent claimants. I do know that the insurance companies are keeping many doctors and other health care professionals busy and the fees are much better than the OHIP schedule.

Let's have some common sense prevail. Is the government saving MVA victims from a costly system or protecting the interests of insurance companies? There is no legitimate role, in my opinion, for government to play by intervening in the relationship between insured and insurer. What government could do and how this legislation could provide benefits is to consider:

(1) One insurance payor for MVA victims to rid the system of this multipayor confusion and to rid the system of different forms, duplicate assessment and mismanagement of claims.

(2) Require insurance companies to provide all automobile insured parties with a step-by-step directory of what to do in case of an accident when they sign up for insurance coverage, not after the accident has occurred. Include a 1-800 phone number for information and perhaps a fax number for prompt claim filing.

(3) Insurance companies should work closely with emergency workers and hospital emergency departments on correct procedure guidelines. Photograph injuries and the car. Give victim an MVA journal and have hospital provide names of practitioners treating victims, nature of injuries and the tests conducted.

(4) The general practitioner should be the pivot point for further diagnostic requirements and treatment monitoring. But doctors paid for by the OIC or the insurance companies directly should not be the sole gatekeepers to acceptable treatment. Primary care, qualified health care

practitioners should have a prominent role, particularly in soft-tissue injury victims.

1750

The other point is that practitioners at the DACs must be independent and objective. I was shocked to be told by the examining physician at my DAC assessment last week that he worked for the insurance company. This doesn't instill much confidence in the integrity of the assessment.

Now, I can't leave here tonight without commenting on the serious flaws to this proposed legislation in terms of dealing with loss of income for the self-employed or small business owners. Despite the fact that small business and therefore self-employed entrepreneurs are the way of the future and definitely part of the 1990s, the tax system has not caught up with us. A lot of new firms, emerging businesses, are knowledge-based and the value of the assets are the people behind them. We, the self-employed and the entrepreneurial small business owner, don't fit into nice income loss formulas.

Statistics also show that the greatest proportion of small business is now female owned and managed. Women have an additional problem, I learned through my own MVA experience. The insurance executive stated: "Are you really a working partner in that firm? Does your absence really represent a significant business revenue loss?" Despite the fact that it's unthinkable any insurance executive would say such things, even if he thought them, he sure as hell didn't question my status when he took my hefty premiums.

Using federal tax guidelines to determine self-employed income status is also problematic. The system is antiquated, badly flawed and could change with any federal budget process. Let me give you one example of a small business owner who forgoes personal revenue to build up cash equity in the company. How do current tax laws or this legislation help anyone calculate such a person's lost income potential?

In closing, I urge you to consider the victim's perspective. The MVA is double jeopardy, from where I sit. You survive the crash, but can you survive the MVA process?

Mr Silipo: Thank you for your presentation, first of all, and for giving us I think an important perspective of somebody who's been through this process as a victim of an accident. Can you just perhaps go a little bit further on your last point in terms of how all this relates to self-employed individuals and small business operators and give us a sense of what you think should be done? How would you go about assessing the income or the loss, if not by the use of such things as federal tax guidelines?

Ms Coldham: One of the things that might be useful is just a basic forensic accounting procedure. I know when we were setting up the disability programs for the key partners in the firm, the insurance companies came in and they did what they called a forensic procedure, analysed what each one of us brought into the company in terms of business, equity injections, new business development, that type of thing. Then they assigned a value, a minimum amount to a maximum amount that would be suitable should one of us leave or be forced to leave from an accident. It represented a portion of—I mean, it wasn't everything that we would lose, but I thought that was a suitable process.

However, now, with the gap from that and the MVA, the company that provides my MVA insurance won't meet the difference. To do so, they said they would have to go in and look at billings and all this stuff for four years. I said to them, "That process has already been completed." They won't accept a forensic accounting procedure by the other company that set the disability. So again, you're caught, and I think that's unnecessary.

Mr Silipo: What criteria were used to determine the premiums you should pay? Was it something similar to that process?

Ms Coldham: For my disability premiums, for two partners in the firm, we pay over \$14,000 a year. I think to take out of it \$4,000 a month when you've been hit, after paying, I figure, about \$140,000 in premiums—since I've never been hurt, I think questioning \$35 for a physio treatment's a bit outrageous.

Mr Sampson: Thank you very much for your presentation. One of the items we indeed struggled with was how to deal properly with the income of the small business owner. We may not have gotten it right, but we tried to take a stab at it in the proposed regulation by saying it seemed to us more appropriate that the small business owner and the insurance company determine the appropriate income loss in the event of an accident before the accident and not after. There's a provision written into the draft regulations that says basically that: that you and the insurance company will sit down and try to determine what the income loss would be in the event of an accident, again prior to the accident as opposed to after, because after it becomes confrontational. Prior it's the basis upon which you're paying premiums.

Ms Coldham: The problem is, though, particularly now, and you're seeing it more in the 1990s—I see it even with clients—there isn't a book value for what's up here. There isn't a book value for your ability to be a problem-solver and to fit a need that someone else in the firm can't do, because although people come to your company for service, they're actually contracting for your intellectual capital. It's very difficult to put a price on that, but that too will have to be part of the formula worked out in advance.

Mr Sampson: But you do that when you buy disability insurance. In fact, I think I just heard you—what?—you go through this process with your disability insurer to determine what would happen to the business if you weren't there to be able to go to work on a regular basis.

I guess what we're saying is that what people do for disability insurance in general they should do for the income component of auto insurance. It would seem to be consistent. In fact, one might use the same type of information and the same database that's collected by the disability insurer for the auto insurer, because essentially what you're trying to do is insure the same risk.

Ms Coldham: I'd agree.

Mr Crozier: I think we need to hear from those who have had actual experience with the system, and I can tell by your discomfort that you're rather courageous to come up to this big place and come in here and address us and we appreciate that very much.

I think we should also use these committee hearings to point out sometimes some of the faults in the system that

go beyond the actual legislation. I was interested that you should comment and say that we should require insurance companies to provide all automobile insured parties with a step-by-step directory. I suggest, and you may want to comment on this, that there are probably a number of things you found out after the fact that you had no idea of with respect to your automobile insurance coverage, or lack of it. Is there any particular area there that you'd like to tell us about?

Ms Coldham: I think a lot of the problem revolves around this multipayer function, that one assessment or one determination for what you're worth doesn't apply. I didn't realize I'd have to deal with the three companies. I thought the MVA kicked in and dealt with the whole realm of things.

For example, when the forms first arrived from the automobile insurance people, they mentioned a whole range of areas which they now tell me they have no intention of ever dealing with, because I'm very frustrated and active, wanting to get back to the company. The doctor and the physios and the whole team have recommended a number of aids that would help.

For example, I have developed a tremor in my right hand that I can't do anything about, and my left hand can't keep the phone in my ear. Since I do a lot of work on the phone, they were recommending a headset that could actually snap on that I could walk anywhere, because I can't sit for too long, a special chair, a wedge for my feet. Anyway, the whole thing wasn't very expensive, but they said, "No way." So I've begun to source and I'm going to have to pay for it myself. But if you look at the form, they say that's not true. So they're pushing you one way but not helping you get there in the other.

I didn't realize. I thought, as a valued customer, someone who, through no fault of their own, would get into a situation like this, they would work with you. But as I said earlier, the biggest shock has been this division, that the moment you're hit and the moment you need that service you've contracted for in good faith, the hostility comes from out of the blue. That's very hard to deal with. I think the biggest challenge has been the ongoing victimization by the insurance companies towards me. They just continue to make me a victim of the system.

Mr Crozier: So a lesson in public relations would help as well.

Ms Coldham: Big time. Also, I was glad I took pictures and kept a journal, because my lawyer hadn't told me that. A lot of people don't do that and then you get into a situation after the fact, "How big was that bruise?"

Mr Crozier: Thanks for your deputation today.

The Chair: Ms Coldham, thank you very much for appearing in front of the committee today.

1800

JIM METZLER
GLENDA METZLER

The Chair: Our next deputy is Jim Metzler.

Mr Jim Metzler: And also my wife, please. We're the second in a row. Good afternoon, or evening now, I guess. I'm Jim Metzler. This is my wife, Glenda, and we only represent ourselves.

Approximately five years and three months ago, we were involved in a head-on collision on Highway 69, which I'm sure none of you have ever heard of as being anything less than death run. Again, we ran through a similar situation where we were sort of fortunate because Glen was taken down to St Mike's. She spent four months in the hospital, and during that four months—

Mrs Glenda Metzler: I was in a coma too.

Mr Metzler: You were in a coma for 10 days. As a result, when we were looking over this legislation, I'll explain what happened. I couldn't find her definition in here, unless it came under (f), because "any other impairment or combination of impairments similar in severity to the impairments described in clauses (a) to (e)."

Mrs Metzler: I'm one of the 2%.

Mr Metzler: You're one of the 2%, right. She had a crushed ankle, a leg that was broken in about four spots, her pelvis was broken in five spots, she had brain damage and was left with cranial nerves 3 and 6 that were impaired. As a result, she had otosis, which of course had to be repaired.

Within the structure of this catastrophic—I couldn't see it when I read the legislation. Where does she actually fit in? Under the no-fault, or Bill 68 of 1990—the accident, by the way, was November 24, 1990, and therefore we crossed the threshold.

I guess I'm a little worried about the lack of definition here. I would like to see something along the lines of "any other permanent and/or severe impairment," as opposed to this comparable to all the above, because there are people like Glen—and there's quite a few people like Glen. You meet them when you're hanging around therapy and rehabilitation centres over five years.

Therefore, I honestly think you need to address that, because as soon as you don't address something like that, the comments that were made about two minutes ago kick into place. The insurance company will grab a word, and they not only extrapolate, they pontificate, and they speak ex cathedra. Immediately, their word is law. They carry a very big stick, and they will drive you to the wall and they will frustrate people. What they really do, as was well pointed out, is they victimize the victims. They are totally unscrupulous in their approach, and their bottom line is cost-efficiency. If I hear that term once more, I think I'll scream.

What happened to the human beings in this whole scenario? Where are they? They don't seem to even be part of the legislation. They're reduced to examples, and they're very real people, as has been pointed out, with psychological, emotional and all sorts of other traumatized states existing as a result of these accidents.

The next thing is, we were lucky in that we went—and St Mike's has closed this down, which is unfortunate—but we went from intensive care upstairs to the neuro wing and then downstairs to a rehabilitation centre, which has subsequently been closed out. Now, that was very fortunate because there was an in-house team of at least five, six, seven people who were constantly, every day, looking after Glenda and all her needs and trying to set the rehabilitation and the plan into play. I was there too and we would have these meetings and so on, and it worked out very well from that point of view.

Unfortunately, as you said earlier, and I agree with you, you don't know until you're there. I don't think anybody in this room has probably read their insurance policy except to swear at the bottom line saying, "Oh, raised again, eh?" Half of us don't know what we're covered for until we lose it, and then we find out we're not. The unfortunate part is, it's a lot more serious when you have people physically damaged and permanently impaired.

The next thing that bothered me was the treatment plan. I'm all for plans. We were in teaching for 30 years together and had plans: daily plans, long-range plans, every kind of plan you could imagine. But you can't give the insurance companies any leeway. You can't put down "estimate the duration of disability." You've just crucified them. Also, the duration of services: Again, they'll fall on that and they'll fall on it like a ton of bricks and they'll hold you to it. If anybody blinks the wrong way, they'll be on you. But as the lady beforehand said, they'll fight you over a \$35 service. Okay?

The next thing is, the \$75,000 for rehabilitation? Again, I'd like to introduce you to 2%, because this is where it comes into play.

Mrs Metzler: We've already gone to \$135,000.

Mr Metzler: We've gone to \$152,000 over five years and three months. Again, Bill 68, I believe, was set up; there was half a million dollars for rehab and there was half a million dollars for caregiving services, and within the structure of the rehab were also the expenses and so on and so forth. Well, the expenses and everything over five years—and Glenda goes four days a week to therapy—have been \$152,000 approximately.

So if you cut a person off at five years or at \$75,000, what are they going to do after that point? Go broke more? They're already impaired. What are they supposed to do with themselves? Problem. I think that ceiling is artificial; not with everyone, but in this type of situation, it's a major, major concern. That half a million dollars will never be used up because there's a 10-year basis, and if you take the five years and three months and you've got \$152,000, well, max it's going to be \$300,000. Right?

That's, by the way, being very frugal, because part of the problem within the cost structure is the fact that if you are fortunate enough—I mean, when we first got out of the hospital, we were handed two names: cognitive therapist, physiotherapist. Thank you very much. I've got this person, you know, with a cast up to her knee and we're walking out the door and I'm saying, "Oh, thanks for the numbers; what do I do now?" "Well, you go see these people." So within a week and a half, I'm into these places and she's getting rehabilitation on both counts. Great stuff.

After you graduate from that, you graduate from \$75 for a 40-minute session or a 45-minute session to approximately \$45 to \$27 to—what do you pay for the other one with Terry?

Mrs Metzler: Thirty-five, I think.

Mr Metzler: —to \$35 for these types of services. I'm all for rehabilitation, but maybe there has to be a cap or something put on their fee structure. Who knows? Just a point. Nothing more than that, except we have tried to be very, very frugal for five years and it's come down to that particular thing.

The one thing I don't understand, I see the \$75,000, but they don't intend to cut it off after two years for the caregiving services, do they? It's 10 years still, isn't it? Sorry, Mr Sampson? It's still 10 years?

Mr Sampson: Yes.

Mr Metzler: Okay. As far as the declaration, we had two years. Most people don't come round. The brain, from what I understood—you know, it's like Saturn; we got some great pictures, but nobody's landed. Even the neurosurgeons and all these people, they can only guess.

Mrs Metzler: I also had traumas in my arm that came up about a year later.

Mr Metzler: The frustration that the previous lady had, we've had it a different way. Our insurance company is very good in a lot of ways. The branch offices, they pay the mileage, they pay for the therapy, they don't argue about that, but do not get into a big-ticket item. Glenda's right leg is three quarters of an inch shorter than it was before and she has double vision permanently, so it's very difficult to walk, and especially to exercise, given the winter conditions too. Everything was fine until I said, "We need a walker in the basement because she's atrophying." It's just that simple. I can't keep her moving fast enough and I can't get her out all the time. Eighteen months later, the money came down—18 months.

The orthopaedic damage as a result of accidents of the severity that the previous lady had and that Glenda had leaves you with a lot of residual orthopaedic pain, so for two and a half years we attempted to get a massage therapy tub in the house so that Glenda could access it because again, and a very relevant point, you don't want to become a junkie. It's very easy to get in the pain killers and so on and so forth. You try to do it through therapy and keep as holistic as possible.

That's two and a half years, and we went to mediation. We got right to the door of mediation and that's exactly how you have to deal.

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Now what happens to an individual if they aren't protected? And case workers don't protect them. What happens if an individual doesn't have some gorilla like me sitting around that will fight for her? You know what I'm saying? I've met lots of them. They don't even know where they are. Or they're in such extreme pain. I've met people where they've had cheques, they say, "Read this for me, will you?" I said: "Sure. Cash that cheque. You've got \$2,000 for your car. No more therapy. You just sign over your rights." "Really?" "That's what it says, ma'am. But I'm not a lawyer. See a lawyer." That's the type of stuff that goes on day in and day out, and they are pushy.

I don't know if that makes any sense. Glenda, take over and go for it.

Mrs Metzler: I'd like to propose—I think this has been dealt with before in that the man from Columbia rehab centre said this as well—that the practitioners should be very well qualified. They should also have certain standards to meet. Don't let just anybody into this rehab profession. There should also be continuing education for those who are involved with victims.

As far as the DAC goes, I also agree that that person should be impartial. They shouldn't be intimidated or

under the guise of the insurance company at all. They should be totally out there, impartial.

I also think it's very good that you've added that reimbursement should be within 14 to 30 days, not two years as we had experienced.

Also, I think those extra people, the 2%, there should be some kind of a group of them up there, and then the people who are up to \$75,000—two sectors, I believe—and perhaps the ones up there should be for life or \$1 million. Thank you.

Mr Metzler: I don't agree with one thing. I think the family doctor is integral, to tell you the truth, because they know the patient. They've known them for 15, 20, 30 years, whatever, and to start introducing all these strangers into your life, that's another traumatic shock. All of a sudden you've lost your vocation, you've lost your sense of dignity, you've lost your sense of pride, and reduced even more. So therefore, that's it.

Mr Sampson: Thank you for coming and making the presentation. I know it's difficult. I met with quite a few accident victims in various categories of severity of injury and we tried as much as possible to customize this product to suit what the claimant is deserving of. One of the things we attempted to do was to get a better handle on the catastrophic category and we tried to add kind of a catch-all phrase, which is the one that you identified in your opening comments, to deal with individuals who didn't quite get into the categories of (a) to (g). We may have missed the mark in that and I appreciate any help we can get from people like you and other claimants, injured people and practitioners, as we go through this process to try to get a better definition of what catastrophic is and isn't.

We've also returned a bit to the system under which you're making claims to allow access to the court system for the not-at-fault victim, and I take it, since you referred to a threshold, that you were indeed not at fault or deemed at least not at fault in the accident?

Mr Metzler: No, we were not at fault. Again, I think you have to rely on the integrity of the consumer when it comes to crossing the threshold. I was bashed up. I was in the car too and I guess because Glenda was in a coma, and you have a personal sense of dignity and pride, I'm not taking anything I'm not deserving of. I got up and walked around. You get a couple of dozen stitches in your face, which is not uncommon when you play hockey for 30 years, and you just keep moving. Your body seizes up and you keep moving. You keep moving because you have a greater objective in this particular case. I don't think we give the consumer enough credit for being ethical and honest, you know; I really don't. I think if you have to look at some of the dishonesty that goes on, you might look at the industry as opposed to the consumer.

Mr Sampson: I would agree with you. I said in my opening comments today that I think the industry needs to improve its claim-handling procedures, and we'll certainly take a look at that and make sure that happens.

The other comment that I want to speak to was raised actually by the person who spoke ahead of you. I, like her, was not aware of the fact that if I were walking across on a green light down at the corner here and a car

hit me, it was my insurance company that would pay. I didn't know that when I started this review. I think that's the shocking situation that we all come to realize, unfortunately when it's too late.

Mr Metzler: Yes, and if you don't have an SEF 44, you're covered by whom? The person who hit you, so you could be out in left field anyway if your coverage isn't appropriate and so on. It's an interesting world.

Mr Sampson: I would've thought, though, that the tort component we've added will help the innocent accident victim.

Mr Metzler: But how do you get the person to that point, though? You see, they starve to death. You should be looking at incorporating maybe—I'm not telling you what to do here—some assistance through banks whereby these people can get some sort of guarantee, because a lot of these people settle because they're going broke. Their house is probably on the line, their cottage, whatever, and their lifestyle has changed dramatically anyway. But the insurance company knows it can outwait them, and it'll stonewall them as much as conceivably possible.

Mr Sampson: That's why I believed it was important to have a relatively strong base of no-fault benefits, to avoid that. That was not available to you under the OMPP situation that you're claiming under.

Mr Metzler: Well, half a million dollars was and that was pretty good.

Mr Crozier: You mentioned playing hockey for 30 years. I knew I recognized you. You're Turk Broda. Right?

Mr Metzler: That's right.

Mr Crozier: You look like Turk Broda.

Mr Metzler: Just forgot my goal net.

Mr Crozier: Some of these younger folks around here wouldn't remember Turk Broda.

Mr Metzler: Harry Lumley?

Mr Crozier: Yes. I just wanted to clarify one thing. I think you asked whether the attendant care was limited for two years.

Mr Metzler: Yes, I thought I read somewhere—

Mr Crozier: I believe it is; it's not 10 years.

Mr Sampson: With the exception under the category of being fully disabled, and then it continues. I'm sorry, are you talking attendant care?

Mr Crozier: That's catastrophic, I guess.

Mr Sampson: Right. Well, totally disabled is the definition.

Mr Crozier: I just wanted to make sure you got your appropriate answer.

Mr Metzler: We have occasion to see Dr Guy Proulx who is, I believe, a neuropsychologist, and his leaning is that family should take care of family, which is fair. But if you're going to cut off those caregiving benefits after two years, you've just eliminated family looking after family. It's still got to be 10 years, because within that structure, we're five years and three months right now, and we've got a year and a half before our case is heard. So it's at least six to seven, eight years before you're ever through. If you cut it to two, you're already going broke anyway, because you've lost an awful lot of stuff.

Mr Crozier: We're okay on that?

Mr Sampson: Yes. I think it hinges on that definitional word.

Mr Crozier: Over this period of time, have you suffered a great deal of economic loss?

Mr Metzler: Yes.

Mr Crozier: Were either or both of you working at the time of the accident?

Mr Metzler: We were both vice-principals in the school system. I took a leave of absence without pay and Glenda went on LTD, plus the supplement; you know, all the good supplements that come along with it. The unfortunate part is the accident immediately eliminates—you've got to buy a new vehicle. They're only going to give you X number of dollars for your vehicle and even then you've got to fight them for that because they're going to give you \$1.95 when it's worth \$5.95. That's the first try they pull.

So, yes, we suffered a lot of economic loss. They cut us off for three months. You know, I get a caretaking benefit every month. Arbitrarily, about two years into it, they cut us off for three months. Well, the bank starts screaming for money. Right?

Ms Metzler: While he was being reassessed, I really needed him at home, but they didn't give us any—

Mr Metzler: No warning.

Ms Metzler: No, "There you go. You're cut off for four months. Thank you very much." Then you're supposed to pick up your financial pieces from that point of view.

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Mr Crozier: I assume, since you were teachers, you had a certain amount of time built up that had to be used before you accessed your insurance benefits.

Mr Metzler: That's correct, 90 days.

Mr Crozier: I wondered whether you were aware of that, or was that something you learned?

Mr Metzler: Unfortunately, I was the first no-fault in our board and nobody knew what to do with me. I became sort of a strange animal.

Mr Crozier: Thanks for bringing us your story.

Ms Lankin: I truly appreciate your presentation and I wish some of the folks from the insurance bureau and some of the companies were here to listen to it, because I'd like to ask them some questions at this point in time instead of you. But let me try.

What the government seems to be responding to is the fact that the companies say the benefit structure is too rich and there's too much fraud going on, particularly in the medical rehab side of things, and therefore we have to put premiums up because we're losing money. Yet, when you listen to your presentation and to the woman who was here before you, it's hard to imagine how anyone could defraud the system unless there was absolute collusion between the pretend accident victim perhaps and the health professionals. Other than that, it's hard to understand, with all the reassessments, assessments, cutting people off, pushing them to the limit, you know, taking them right to the end before they settle, pushing court dates out. So I'd like your comment on that.

Also, I am a doubter on the issue of tort. I have a problem with everything going through the courts and the involvement of lawyers and how things get dragged out,

and I can't see the insurance company acting any differently. In fact, if anything, the stakes get higher for them in what might happen in a court situation, litigation, than through the benefits structure. Can you just comment on that? You must have met a lot of other people in similar circumstances in your travels through the last five years.

Mrs Metzler: I agree that if you go through a tort there can be a lot of costs. This is one example I'll give you: I have a friend whose brother was in a very severe car accident too, and the lawyers, after their tort, took 27% of their ultimate settlement. Please. You know? It amounted to almost \$400,000 because they got \$2.2 million. So figure it out; 27% of that. Then on top of that, they charged every phone call, all that kind of thing; that came out of the settlement too. That, I think, is very unfair from the victim's point of view too. I know that lawyers are very well paid, but please.

Ms Lankin: Do you have any other comments on the whole issue of, is there fraud in the system and where does the fraud rest in the system?

Mr Metzler: I would suggest there's about 40% fraud on smaller things. When you're in a major car accident, the spouse or the family is so concerned about staying in this world that you haven't got time, and the person, especially when you have brain trauma—you don't know where you are. So how in the world could you think about fraud? As the lady from CARP said earlier, you've got to be out of your mind to want to go to therapy every day of the week. You can think of better things you're going to do with your life. Well, Disraeli said there are lies, damn lies and statistics, and I think the insurance company is guilty of all three. Honest to God, really.

The Chair: Thank you for coming down and presenting us today. We appreciate it very much.

Mr Metzler: I hope it helps. I don't know. Thanks very much for hearing us. We appreciate it.

GEORGE ROTA

The Chair: Our final presenter today is Mr George Rota. We welcome you to the standing committee.

Mr George Rota: Good evening, ladies and gentlemen. To all members of the panel, I thank you for allowing me to speak to you today to express my views on the subject of car and house insurance.

My name is George Rota. I was born in Toronto, raised in Toronto, living in Toronto except for three and a half years when I volunteered my services to my country of Canada during the Second World War for active duty.

I've been paying insurance for 59 years to the insurance industry, during which time I had never had a car accident until 1994, and I had one car accident also in 1995.

When you have an accident you are assessed two points. If you're unfortunate enough to have two accidents within five years, you're assessed two more points, for a total of four points from your insurance company or any other insurance company. You are then turned over to one of three companies that specializes in people who have four points against them, and their insurance premiums are anywhere from \$3,800 to approximately

\$4,500 each year for the next five years, which I think is very, very excessive.

I am nearly 75 years old. If I could afford to pay that premium for five years, I would then be 80 years old, if I live that long.

My wife drives an 11-year-old car and her premium is just under \$600 per annum. My insurance will come to approximately \$4,500. This is totally unacceptable and extremely high. Insurance companies keep increasing their insurance rates every year—I think this year it was just under 12%—and they've been doing this for the last five years. When and where is this going to stop? Seniors in their twilight years cannot afford this. They are forcing us to sell our cars and get off the road if we cannot afford to pay the rates that they automatically come up with every year.

As I mentioned earlier, I was born, raised and lived in Toronto. I volunteered my life to my country in wartime and I cannot offer more than my life for my country, and to think that when I became 75 years of age and my wife becomes 77 years of age, we must give up the privilege and the necessity after enduring the Depression years and volunteering for active service. Now insurance companies do as they please regardless of seniors and war veterans. It is not right, and the matter should be addressed at once.

Premier Mike Harris was elected on the platform of common sense. Where and when is the Premier going to act with common sense regarding the combine that the insurance companies have enjoyed for years and years with all the previous governments? I am not saying this government; I'm talking about the previous ones.

One other thing that I object to is that the insurance companies can call the Ontario licence bureau and find out if a driver has an infraction such as driving without a seatbelt, making a wrong turn or speeding. Naturally, you lose points, and so you should, but I disagree when private industry can call government offices and get privileged information so that they can raise one's premiums. I know of no other company that enjoys that privilege to increase their rates and profit for personal gain. This must stop immediately. Consider those in their twilight years who cannot afford the high rates of insurance.

For your perusal, I have brought along with me today my wife's income tax return and my income tax return. Excuse me for not being able to turn because I've only got one arm. As you can see, both my wife and I exist well below the poverty line. If you want to see the tax, I have it here. Our total income last year grossed \$19,200, both of us together. These are supposed to be our golden years. They may be, but not according to the insurance companies.

I was a commercial traveller, and to think of the thousands and thousands of dollars that I've paid into the insurance company over the past 59 years, less the war years; it amounts to quite a lot of money for a man who has had only two accidents in the last 59 years. The insurance combine must be broken up, because all insurance rates are unreasonable. They all agree on "Two accidents and you're out," so they must have all got together and come up with this four-points system, that

all drivers have to be turned over to companies that specialize in drivers that have four points.

In closing, I thank you for allowing me to address this panel. I sincerely hope that I've been able to shed some light on what it is like trying to be a good citizen and live in the province of Ontario.

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Not only did I volunteer my life for my country, but I continued to serve my community. For 14 years, morning, noon and night, I was a service officer for the Royal Canadian Legion, and any veteran who was in trouble, I was the man they called. I'm also a director of the Last Post Fund of Ontario. These are all voluntary positions. We all pay our own expenses. I tried for 14 years until my health gave out and I couldn't do it any more.

What remaining years I do have, I'd like to enjoy with my wife and family. I have seven grandchildren and four great-granddaughters. But we live in the suburbs, we can't do without a car, and I can't afford \$5,000 worth of insurance, 25%. My God, the government doesn't take that much off me, and here's an industry that's had its own way for years and years and years. Previous governments have promised to do something about the insurance, but after they get elected somehow the promises get lost in the shuffle.

But I honestly believe in my member of Parliament, and he asked me to come down here to speak to you. I honestly believe that this government will sincerely do something soon, and I hope it's done well before May because my insurance is up in May and I haven't got the \$5,000. If I'm forced off the road, then I won't be able to do my voluntary services to my community. In fact I was really honoured to be doing this service. I was made a life member of the Royal Canadian Legion, which is the second-highest award that one can receive, and I'm proud of my record to my community and I'm proud of my country.

But I sure as hell hate these insurance companies when they have their own way and they can send you an invoice. There's no dickering, no bartering, that's it, pay it or you're cut off, no insurance. But God forbid, if you ever have a claim, you'd be surprised how many hats and how many dirty tricks these insurance companies come up with. And don't tell me it's not a combine because it's amazing how they all say, no matter which one you're with, "Two points, four points, out." Every one of them, and a combine is supposed to be illegal. I thank you.

Mr Kwinter: Mr Rota, thank you—

Mr Rota: Excuse me, I've only got one ear. I'm only half a man. Would you speak up, please.

Mr Kwinter: I just want to thank you for your presentation. You've raised an issue that has been raised by many people, and that's affordability. The unfortunate fact is that, even with this plan, the industry is proposing that there be increases over the next five years of at least 7% plus each year. That gets to the basic problem that I think is unfortunate, that a lot of people don't understand how insurance works.

Insurance works on a pool of money and it is based on actuarial figures that try to determine what the requirements are going to be against that pool and everybody has to pay. The only way they can determine what is fair

is based on history. As I say, it certainly is not going to make you any happier, but the fact that your two accidents happened in the near past as opposed to the long past puts you in that situation.

I'll tell you, that is the challenge this government is going to have to face and we're all going to have to face, and that is, how do we allow people like yourself, people who cannot afford insurance but who are dependent on their automobile for the kind of quality of life that most of us take for granted? I wish I had an answer for you, but I'm just telling you it is a very, very difficult, if not unsolvable, problem.

Mr Rota: I'm quite familiar with the insurance industry because I was one of the first persons to introduce RRSPs in Ontario, one of the first persons to introduce mutual funds, and I also had a licence to sell insurance. They wanted to cut me off, but they didn't dare because I challenged them. They wanted me to sell their policies, and I knew if I sold the policies they wanted me to sell, 30 years later the person I sold it to would say: "George, what did you do to me? You knew what you were selling me." I'll give you an example.

Let's use simple figures. Let's say we're going to insure someone for \$25,000 and along the way the insurance agent will say, "Do you want dividends?" "Oh, yes, I'd like the dividends. Let them accumulate. Sure." That policy, if you had no dividends, let's use a figure of \$300 a year. If you wanted dividends, same policy, same amount of payout, \$325 a year. So you're really getting mugged. It takes 18 years to break even.

I was only selling term. That's all I believed in. Not only reducing term, I wanted level term and then I wanted increasing term, because as we get older you need more money, but at least not reduce it down to nothing. They tried their damndest to get rid of me, but after five years I was way ahead of my time and I gave up. I even had investment booths at the Canadian National Exhibition for investments, but they didn't catch on until about five years after me. I was way ahead of my time.

Now today, look at the paper, thousands and thousands and thousands of mutual funds, which are good, and each one is supposed to have a professional manager. There's not that many professional managers available. Anybody who asks you today, "What do you buy in insurance?" I tell them one thing and one thing only, "You buy Canadian resources: gas, oil and hydro." That's all you have to worry about because you don't move, the building doesn't light up, nobody goes to work, and there's a mutual fund that specializes in gas, oil and hydro. That was the one I started, and it has done extremely well and is still doing well.

Ms Lankin: Mr Rota, I'm just interested. You said that your member of provincial Parliament recommended that you come here. Who is that? Who's your MPP?

Mr Rota: Steve Gilchrist.

Ms Lankin: Okay. I just wanted to make sure, because when the final bill comes in, if it doesn't address your concerns, I want to be able to remind Mr Gilchrist in the Legislature—

Mr Rota: Well, they spelt my name wrong. They put me down as Mr Roper, and that's not it, it's Rota. It was corrected.

Ms Lankin: We have it here. Thank you.

The proposal that is before us is draft legislation. Mr Sampson has indicated that if it needs fixing, they'll look at fixing it. In the existing proposal, however, the insurance industry says, "Rates are still going to go up, and if anybody's rates go down, they'll be the good drivers." I asked them what do they mean by good driver. It's really hard to get definitions out of anyone, but it's real clear that they didn't mean anyone who had a speeding ticket or who had any other kind of infraction and, particularly, they didn't mean anyone who had had an accident. So it really makes me believe that the changes we see here aren't going to do anything to address the concern you've raised.

The government did indicate they'd like to look at the issue of whether or not there should be differential rates for seniors, for retirees, but again only if you meet the insurance industry's definition of good driver. I'm wondering if you can address that, because you must have had some conversations with the insurance companies when they explained to you the four points you're out. What was it about the 59 years of a good driving record that they couldn't understand before you had the two accidents?

Mr Rota: And I drove everything, tanks, Bren gun carriers, lorries, you name it. Never had an accident with a tank either. But look, I'm an old man and I'll match my driving skills with anyone. It's unfortunate that somebody nicked me in the back bumper, and it's unfortunate I ran into the back of a big beer truck—I admit that's my fault. But to penalize a man in the next five years—I may not even be around. We live in a suburb where we can't walk a mile out and wait in the cold weather for a bus. People don't shovel their sidewalks, and how am I going to get my groceries? I've only got one arm, from here it's all artificial. I got this. This is my arm. I can't do that. And I'll match my driving skills with anyone.

Ms Lankin: Did they explain to you why the two accidents that happened wiped out 59 years of a good record?

Mr Rota: Yes, they did. They said: "We're not interested in 59 years. We're only interested in the last five years and you had them in the last five."

Ms Lankin: I'll tell you, just very briefly, a story. I was, as you know, in the previous government, and during that period of time had to re-establish an insurance policy for driving, because prior to that I'd been at a place where there was a company car and fleet insurance and I didn't have my own insurance. Because I could only get records going back for four and a half years, even though I didn't have any accidents prior to that and I didn't have any accidents during the period of time that I was trying to re-establish my insurance for, because there was only four and a half years of it and it wasn't five and I couldn't get anyone to find what happened before that, I couldn't get rating, so I had to go to a higher rate. So you're right, five years, that's the rule, and it doesn't make a lot of sense.

Mr Rota: Now it's payback time.

Mr Sampson: You mentioned that you were concerned about insurance companies having access to the licence

bureau to get the driving habits and the driving records of insurers. You don't particularly like that system, but you believe it's appropriate that somehow one's driving habit be used in assessing one's risk. How do you get access to that driving habit? How do you get access to the records as to whether or not somebody has had one, two, three, four accidents and what the nature of those has been unless you get it through the driving record?

Mr Rota: First of all, I don't know their methods of operating, but I do know they wear many hats, believe me. You have to fill out an application and you sign it, and if you put anything false on that application, you're liable. Furthermore, when they sell you this insurance, if your car is under two years old and you have an accident, they'll replace a new part for that car; if your car is over two years old, the parts come from the junkyard. I've never had an agent explain that to me. They just say, "Here's the premium," blah, blah, blah; they don't tell you the pitfalls of what you're getting into.

Mr Sampson: I would agree with you that the industry has to do a much better job in informing the insured what it is they're buying before the accident and also what it is they're likely to get after the accident. I would agree with you that there needs to be a better information exchange there. But in order to facilitate that, I would say to you that it's also important to have a product that's a little bit simpler to explain than the current one we have.

Mr Rota: I appreciate your concern. I sincerely appreciate the concern, but my concern is this: Am I off the road and is my wife off the road come May 5? That's the point; something has got to be addressed. I don't care what the solution is, but they've got to have some compassion.

Mr Sampson: I agree with you that we need to reassess and take a look at the rules that are applied to get into this thing called the Facility Association, which is where you are now as far as an insured driver is concerned. We need to clarify those rules—that was the statement I made this morning—and somehow take a look at what the Facility Association is and how it operates. But in order to do that, we need to understand what it is the underlying insurance product is first, and that's what we're doing here. I certainly appreciate your coming and speaking to us on your dilemma.

The Chair: Thank you very much, Mr Rota, for joining us this evening.

Mr Rota: Again I thank this panel for allowing me to appear and I sincerely hope that something can be done for people that are in our predicament, because if you don't, there are many, many seniors and many, many veterans that are going to be in a terrible bind.

The Chair: Thank you very much. I would remind the committee that tomorrow morning we're commencing at 9:20, a little earlier than usual. I look forward to seeing you all at that time, bright-eyed and bushy-tailed.

Ms Lankin: Is that a condition of us showing up?

The Chair: Yes. The committee stands adjourned until that time.

The committee adjourned at 1844.

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**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Crozier, Bruce (Essex South / -Sud L.) for Mr Phillips

Marland, Margaret (Mississauga South / -Sud PC) for Mr Martiniuk

Also taking part / Autres participants et participantes:

Kormos, Peter (Wendell-Thorold ND)

Clerk / Greffier: Franco Carrozza

Staff / Personnel: Andrew McNaught, research officer, Legislative Research Service

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